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ABSTRACT

This volume presents 19 papers and reactor comments from the third annual Policy Forum on Employability Development, which focused on the information and program options needed to prevent and ameliorate worker displacement. The first four papers describe and assess the context of the problem. Topics include national policy and local program response, policy recommendations emanating from the forum deliberations, and employment security. Two papers address private and public responsibilities for retraining displaced workers. The next six papers and reactor comments describe and assess operating programs for displaced workers, including two programs at two-year colleges, training programs negotiated through collective bargaining by the United Auto Workers, and Bethlehem Steel Corporation's program. A presentation on international experience and reactor comments follow. The next three research and evaluation papers and reactor comments examine use of unemployment insurance data to predict economic hardship from displacement and the economic impact of the Downriver Community Conference Economic Readjustment Activity Program. Finally, broad policy options to facilitate the reemployment of displaced workers and reactor comments are made. (YLB)

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THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION

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Displaced Workers: Implications for Educational and Training Institutions

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DISPLACED WORKERS: IMPLICATIONS FOR EDUCATIONAL AND TRAINING INSTITUTIONS

Kevin Hollenbeck
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Editors

The National Center for Research in Vocational Education
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43210

1984

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- Generating knowledge through research
- Developing educational programs and products
- Evaluating individual program needs and outcomes
- Providing information for national planning and policy
- Installing educational programs and products
- Operating information systems and services
- Conducting leadership development and training programs

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Preface

What kinds of information and program options are needed by education and training institutions and policymakers to prevent and ameliorate hardships of employment displacement caused by technological change, import competition, or other causes?

This question was the primary focus of the third annual Policy Forum on Employability Development. Held in Washington, DC, in September 1983 by the National Center for Research in Vocational Education, the Forum was sponsored by the National Institute of Education.

The first Policy Forum, given by the National Center in October 1981, was a comprehensive examination of the contributions of various training institutions in the United States that prepare young workers for the world of work. The resulting papers from that Forum were published in *Job Training for Youth.*

The second Policy Forum, given by the National Center in September 1982, explored the usefulness and validity of occupational forecasting, institutional responsiveness to these forecasts, and program coordination. The information presented at the Forum was of interest to policymakers and researchers who participate in the decisionmaking about the training of a skilled labor force. The proceedings were published in the volume, *Responsiveness of Training Institutions to Changing Labor Market Demands.*

This volume presents a set of papers and reactor comments which describe and assess the context of the displaced worker problem, international experience in retraining displaced workers, private and public responsibilities for retraining displaced workers, operating programs, and broad policy alternatives. These papers will be useful to both national education, employment, and training policymakers and those charged with administering local programs.

The National Center has engaged in organizing the Forums and publishing the resulting papers in order to bring to the attention of policymakers problems and issues affecting training. This publication contributes to the continuation of thoughtful dialogue and debate concerning the implications for our education and training institutions of the displaced worker problem. We hope to continue our contributions to the field of training through subsequent annual Policy Forums and resulting publications.

As editors, we have taken minor liberties in preparing the materials for this volume. In particular, in chapter 2 we have attempted to summarize our sense of the policy considerations and recommendations growing out of the Forum. We take full responsibility for these interpretations and conclusions.

A great many people contributed to the third annual Policy Forum and to preparation of this volume. We wish especially to express our appreciation to the National Institute of Education for its support of the research program on employability development of which this Forum is a part. We owe a deep debt of gratitude to Robert E. Taylor, Executive Director of the National Center for Research in Vocational Education, for his guidance in developing the program and his support in all phases of its staging. We wish to thank Walter Corson, Robert Johnson, William Ashley, and Linda Lotto for their review and comments on early drafts of chapters 1 and 2. We also wish to thank Janet Kiplinger and her staff for editorial assistance, Mary Jo Alvoid for her help in coordinating the Forum, and Patti Brougher, Debbie Linehan, and Cathy Jones for their help in preparing the final manuscript.

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November 1983

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Overview and Context

1

K. HOLLENBECK
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Introduction: National Policy on Displaced Workers and Local Program Response

As the recession of 1981-83 loosens its grip, employment, education and training policymakers are grappling with the residual underemployment problems faced by workers who have been displaced by the forces of technological change, import competition, shortened product cycles, changes in consumer preferences, or industrial regulation. Such workers—who have had a strong attachment to the labor force but who have been laid off or have been given notice of an impending layoff, *and* who have little likelihood of becoming reemployed in their former industry or occupation—are labeled displaced workers. Stereotypically, these workers are white males, have blue-collar jobs in smokestack industries (such as automobile manufacturing and steel production), and they typically have achieved, through seniority, relatively high wage rates but have only modest skill and educational levels. Evidence suggests that the structural changes in the economy are eroding also recent labor market gains of minority groups and women, particularly during the period in which employment levels at facilities were being reduced prior to plant closures.

The problem of displaced workers has been recognized and there have been some initial broad policy thrusts to assist these workers. Enactment of Title III of the Job Training Partnership Act (JTPA), which went into effect on 1 October 1983, encourages local public/private training partners to assist displaced workers. Funds may be used for the following services:

- Job search assistance
- Job development
- Training in job skills for which demand exceeds supply
- Supportive services, including community assistance and financial and personal counseling
- Pre-layoff assistance
- Relocation assistance
- Programs conducted in cooperation with employers or labor organizations to provide early intervention in the event of closure at plants*

Other federal interventions designed to lessen the problem of displaced workers have included the negotiation of "voluntary" export quotas with major American trade partners and the administration of a number of "special protection programs"—such as Trade Adjustment Assistance, which aids workers adversely affected by trade—to provide financial assistance to workers who have lost their jobs. In addition to these federal interventions, Unemployment Insurance (UI) is the largest source of financial assistance to the unemployed. Indeed, most displaced workers are eligible for this type of insurance.

Labor and management have also negotiated private sector programs designed to ameliorate the problem. For example, bargaining for employment security through upgrade training/retraining while foregoing immediate wage gains has emerged from recent United Auto Workers of America (UAW)/auto company and Communications Workers of America/AT&T bargaining.

At a time when policymakers were beginning to recognize the importance of the displaced worker problem, the National Center for Research in Vocational Education convened its third annual policy forum on employability development and focused it on the role of training and educational institutions in serving the needs of displaced workers. The objectives of the annual policy forum series are to (1) provide policymakers and practitioners with information to make informed decisions about education and training for work; (2) provide opportunities for dialogue on important policies, practices, and issues in providing preparation for work; and (3) serve as a means of maintaining important linkages between and among policymakers, researchers, and practitioners. Towards these ends, the 1983 gathering included key personnel from the U.S. Departments of Labor and Education, staff members of Congressional committees and agencies, members of key education and training organizations, officials of labor unions and business enterprises, selected state and local government officials, and researchers and scholars.

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*Section 302 (a) of P.L. 97-300, Job Training Partnership Act

Two broad themes emerged from the proceedings of the 1983 forum. First, participants considered what types of *national policy* or industry-level initiatives, need to be pursued in either a preventive or ameliorative role, as well as the implications of such policies. Second, participants described and considered *local responses* to displaced workers and the roles being played by training institutions and schools.

THE FOCUS OF NATIONAL POLICY

Any intervention into the economic process benefits some segments of the economy, but it also distorts the resource allocation of the marketplace, which will cause costs to be borne by other segments. A basic question, then, is whether the benefits of the intervention warrant the costs.

Two of the participants—Bluestone and McKenzie—debate this question in their chapters on retraining displaced workers. McKenzie provides three reasons for suggesting that (federal) governmental intervention be limited. First, firms will substitute (to some extent) subsidized training for retraining that would occur in the absence of subsidies and will pocket the reduced costs in the form of increased profits. Second, financing government subsidization of retraining will cause reduced training in those firms that will pay higher taxes. Third, subsidizing training in industries at risk gives workers the wrong incentive signals; that is, the relative wages in those industries will become artificially high and will attract workers. Bluestone counters by suggesting that institutional and social impediments to change cause a misallocation of resources and therefore result in social costs in response to the rapid spatial and dynamic adjustments of the economy.

Second, negative externalities in the form of lost training costs often occur in private companies when a worker leaves to take a job with a competitor. These externalities cause firms to underinvest in training. Government policy, according to Bluestone, can alleviate the costs of rapid economic change and distribute training costs more equitably. He even goes so far as to suggest a totally new financing mechanism that makes the government an "equity investor" in educational endeavors.

The experiences of other industrialized countries that have confronted the problem of massive structural unemployment could guide American policymakers. Bendick's chapter describes the experiences of three: Sweden, France, and Canada. Sweden relies on a strong national employment service involving compulsory use and registration. France uses its tax code to provide incentives for firms to provide training. Each French firm is obliged either to spend at least a sum of money equal to 1.1 percent of its wage bill on training activities, or else have the difference between 1.1 percent of its wage bill and its training expenditures fully taxed. In conjunction with advance notice legislation, Canada's federal employment authority administers a service that actively intervenes in plant closings or other mass layoff situations if requested by the parties involved. This service, the Manpower Consultative Service, arranges a tripartite council with members from management, the work force, and an arbitrator. The council acts as a focus for outplacement and other services for the laid-off workers. The chapter concludes that the Canadian approach is the most amenable of the three to the U.S.

In discussing the context of the displaced worker problem, Uhalde's chapter indicates that since there is no consistent agreement about the definition of employment displacement, there is no general agreement about the size of the problem. The chapter does indicate that Title III of JTPA is the primary public response to the displaced worker problem in this country. He suggests, however, that it should be supplemented by modified workplace adjustment mechanisms in the private sector. Such mechanisms may include cooperative human resource planning between labor and management to retrain and retain workers who may otherwise become displaced.

McLennan suggests several modifications to existing federal programs and legislation that should be considered in attempting more efficient amelioration of structural unemployment. In particular, he suggests a basic reform of the Unemployment Insurance system to add a second tier of benefits that individuals with at least a minimum level of labor force experience could use for retraining, in the case of permanent displacement. To help reduce the possibility of large-scale displacement of workers, McLennan argues that the large and growing level of tax-exempt bond issues to support private firms skews the competition for capital away from heavy industrial firms with large plant and equipment capital needs toward lighter service-oriented business. He suggests that a limitation on such instruments will bring about more sensible local economic development and increase the competitiveness of American industry. His review of policy options considers various additional alternatives, ranging from Individual Training Accounts and targeted federal procurement to Reemployment Vouchers.

Examining administrative and supplemental data from the UI system, Crosslin, Hanna, and Stevens report that the larger the decline of employment is in certain industries, the more likely UI benefits will be exhausted and earnings will fall in subsequent employment. This finding suggests that early intervention, such as training or job search assistance, may be desirable for workers displaced from those declining industries. The authors also offer numerous administrative suggestions for policymakers establishing programs to identify and serve displaced workers.

In considering the various national policy alternatives, the forum authors generally agree upon the overriding importance of achieving stable economic growth in the country. Uhalde's conclusion, which reflects a consensus view, suggests that:

> Stable, sustained economic growth at reasonable interest rates and exchange rates is a *prerequisite* for successfully addressing the problem of the displaced worker.

LOCAL PROGRAM EXPERIENCES

No matter which direction the future national policy focus takes, local training and educational institutions and employment program administrators will shoulder the responsibility of implementation. The forum includes several presentations that describe or evaluate local program experiences. In anticipation of legislation to assist displaced workers, the U.S. Department of Labor has funded several demonstration programs for localities to meet the needs of these workers.

The initial site, whose program has received considerable attention, was in the Downriver area of Detroit. Smith, Kulik, and Stromsdorfer present an evaluation of that effort. Their evidence shows that the Downriver program has had a positive effect on the reemployment rate of local displaced workers. The evaluation does not identify the relative effects of retraining vis-a-vis job search assistance, however, due to small sample sizes and specification problems.

Miller profiles another U.S. Department of Labor demonstration program jointly developed by the Mid-Willamette (Oregon) Jobs Council and the Chemeketa Community College. Of the laid-off workers who were sent letters inviting them to participate, 34 percent accepted. All participants went through a job search assistance workshop. Then about two-thirds participated in job placement assistance activities only; the other one-third received classroom training. Placement rates for the former were around 70 percent and for the latter, 46 percent. The difference in these rates must be interpreted with caution, however, because classroom training has only recently been completed. The average wage at placement for both groups is higher than program administrators anticipated, but is still approximately only three-quarters of the pre-layoff wage.

Ross describes a program developed by the Bethlehem Steel Corporation that became indirectly affiliated with one of the U.S. Department of Labor demonstration projects. Creating a Career Continuation Center, the program involved five phases: plan development, counseling services, job search training, follow-up support in job development activities and training/retraining. The Bethlehem Steel program emphasizes counseling and involvement of the whole family as compared to other more employment services-oriented programs.

Noting that the United States has over twelve hundred community, junior, and technical colleges that represent an in-place delivery system for retraining massive numbers of the American work force, Eliason reviews what these institutions are doing to prepare to offer numerous modes of training and retraining in partnership with local businesses and industry. She presents thumbnail sketches of in-place programs or those under development, such as the Brevard (Florida) Community College precision sheet metal retraining program, the Horry-Georgetown (South Carolina) Technical College golf course maintenance program, the Parkland (Illinois) Community College Dislocated Worker Assistance Center, and others.

The central point of Shy's chapter is that a number of training programs have been negotiated through collective bargaining to serve active and laid-off workers. He presents detailed descriptions of the UAW-GM Joint Skill Development and Training Committee and the UAW-Ford Employee Development and Training Program. The critical element of these programs is that they are jointly administered by labor and management.

SUMMARY

The forum proceedings here offer a rich and thoughtful collection of viewpoints for policymakers and program administrators to consider in dealing with the problem of displaced workers. The discussion of participants strongly suggests that national, state and local policies need to reinforce each other. Both management and labor can also contribute to these policies and work together to supplement governmental programs. Forum participants recognize the need for both preventive as well as ameliorative policies and programs.

The next chapter highlights the policy recommendations emanating from the forum deliberations.

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K. HOLLENBECK
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Summary of Policy Considerations

One of the principal objectives of the National Center's series of policy forums is to provide policymakers at local, state, and national levels with information with which to make more informed decisions about this nation's system of education and training. This volume presents information and suggestions related to displaced workers. Following upon the introductory remarks in chapter 1, we have classified the policy considerations according to whether they are more germane to the national level or to local-level policymakers and program administrators. Of course, sound policies and programs require contributions from and coordination of individuals at both levels. Nevertheless, some issues address organizations or institutions with national constituencies (e.g., the Congress; executive agencies; national unions; private interest organizations concerned with training and education, such as the American Association of Community and Junior Colleges, the American Vocational Association, or the American Society for Training and Development; and organizations of employers). Other issues are more relevant for public or private officials at the local level.

NATIONALLY FOCUSED POLICY CONSIDERATIONS

Policymakers should consider the articulation and promulgation of a national industrial policy to coordinate economic development and employment and training policies. As the economy experiences structural shocks from import expansion, technological change, industrial relocation, changing consumer preferences, and accelerated product cycles, a coordinated response (public or private) may facilitate adjustment and resource reallocation toward more efficient and/or equitable ends. If goals and objectives are articulated by a national industrial policy, then program administrators and policymakers at all levels of government and in the private sector will have a focused direction to follow instead of trying to resolve conflicting or uncertain programmatic goals. The educational system must play a role in the industrial training policy as well.

In considering a national industrial policy, the problems of displaced workers should be kept separate from the issues of trade and competition. In the long run, protectionism of or policies that impede technological change in declining industries may result in even *more* jobs lost. Improving American competitiveness and facilitating the dynamics of economic change are a better course of action to increase the number of jobs and ease problems of displacement.

Apart from a national industrial policy, displaced worker policy initiatives may range from comprehensive reforms to incremental changes in existing programs. Toward the systemic end of the spectrum are such models as the Canadian Manpower Consultative Service, a centralized public agency that enters a local situation upon invitation and mobilizes and coordinates resources to meet the needs of displaced workers, and the French "obligation-to-spend" system, which may be examined for potential adaptations or implications. Advance notification legislation is another systemic change to be considered. Although somewhat antithetical to a private market philosophy, some evidence has shown that advance notice of plant closure or job layoffs results in better outcomes for affected workers. Incremental types of program changes include targeting federal procurements and revising current capital investment incentive policies (on the demand side) or establishing training subsidies for individuals (on the supply side).

The potential of the Canadian approach was particularly recognized by the Forum participants. As more collective bargaining agreements incorporate advance notice provisions, this approach of early intervention through a voluntary, cooperative labor-management outplacement effort should be considered. It represents to the employment and training program administrators an opportunity to leverage private sector dollars with scant government resources.

Forum participants reach agreement on the importance of job search skills in achieving high levels of reemployment and on the striking deficiency of such skills among displaced workers. Educational and training policymakers should consider the appropriateness of including job search skill training in relevant program curricula.

Two major long-run trends in educational policymaking are movements toward emphasis of basic education and lifelong learning frameworks. Either of these developments may help ease structural unemployment. With higher levels of basic skills, workers will be more trainable and more adaptable to new positions within their employers' firms or in other firms. Similarly, as institutions and policies accommodate the training and retraining that workers will require throughout their lifetimes, these workers will be able to acquire the skills and knowledge necessary to adjust to changing labor market demands.

But in the short-run, the forum participants presented evidence that the *relative* basic educational attainment of recent cohorts of displaced workers is not low (compared to community college students, for instance), and that the current training *demands* of displaced workers call for concentrated-in-time vocational courses that meet established local labor market demands.

Private sector initiatives should develop programs for increasing employment security within the workplace because of limitations of and competing demands for government resources. This may be accomplished via retraining programs at local secondary or postsecondary institutions, relocation policies, advance notice of closures or layoffs, and cooperative strategic planning by worker-management councils. Indeed, recent collective bargaining agreements are moving in that direction. Adjustment mechanisms, however, may be too expensive for some firms, particularly for small firms or firms nearing bankruptcy. Therefore, national policymakers need to consider the employment security problems of workers in firms where private intrafirm mechanisms cannot be established.

Along similar lines, other populations of displaced workers warrant the attention of federal or national policymakers. Most criteria for defining displacement start with unemployment. However, displacement may also involve underemployment or nonparticipation in the labor force. Furthermore, the definition of displaced workers in the Job Training Partnership Act (JTPA) relies on a lack of job opportunity in the workers' industry or occupation; however, because of impediments to job or geographic mobility, such as those which older workers, workers with employed spouses, or workers with families might experience, perhaps loss of job in one's establishment should suffice in administrative definitions. Finally, guidelines for the administration of displaced worker programs should not overlook displacement affecting small numbers of workers, as opposed to focusing primarily on more visible mass layoffs.

LOCAL PROGRAM CONSIDERATIONS

In administering and, particularly, in establishing a program, it is important to establish linkages to all community resources and service deliverers. Reemployment at a reasonable wage level may be the primary goal, but a job loss often causes psychological, financial, family, and health problems that also must be addressed. Income assistance during prolonged periods of unemployment may also be necessary. Coordination within the community will (1) maximize the likelihood of being able to provide the necessary services to all displaced workers and their families and (2) minimize duplication of services.

A particular problem within the JTPA framework addressed by the forum participants is the administration of local programs when local boundaries cross state lines. Policymakers need to facilitate the efforts of program administrators in such cases to deal with multiple state, county, and municipal governments.

Several participants believe that in providing services at the local level, job search assistance (JSA) and job search skill training should have the highest priority. Several models are available, and most aspects of the job search assistance procedure have been implemented in various settings. Approximately 60 to 80 percent of participants in the programs discussed in these chapters have received (and presumably needed) JSA only, with the remaining clients acquiring JSA and then engaging in training activities.

Job development activities are an important adjunct to the provision of job search assistance. Local administrators of programs should not rely solely on published information, but should inquire *actively* and *regularly* with employers in their local labor markets and should develop networks.* Programs may even assist firms with government procurement activities to help stimulate the local economy as well as to establish credibility and contact with employers.

To date, skill training has been provided to only a minority of program participants. There is no consensus on its effectiveness vis-a-vis other types of program treatments. The scant evidence available indicates that employment outcomes of trainees are comparable to those of nontrainees; this may be a positive reinforcement of training as a treatment, however, since evidence also indicates that trainees tend to be the least job-ready. In any case, training should be of short duration and targeted to occupations with demonstrated demand. Displaced workers are experienced workers who feel they "know the score" and may thus be averse to training that has no immediate payoff. Furthermore, they usually have responsibilities that do not allow large investments of time or money.

Institutions and program administrators need to acknowledge these facts. Standard institutional models of a two- or four-year college for young adults are simply not applicable to displaced workers. Effective programs are flexible enough to meet time and content constraints. Training may need to be offered at the workplace. Community colleges have to adjust their administrative systems to accommodate displaced worker training. Unionized faculty may need to alter their work rules. In short, all parties need to operate in a flexible, problem-solving manner.

During the past two decades, this nation has developed and acquired a considerable amount of information and experience about providing services to structurally unemployed workers. Several forum participants stress that this information has not been effectively disseminated to program administrators. National policymakers should consider investing the resources necessary to disseminate relevant information about exemplary displaced worker training programs.

Finally, policymakers need more information about the 60 percent (or more) of displaced workers who choose not to participate in programs or who drop out of programs. This large percentage raises basic questions about the effectiveness of the programs offered. Do

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*This recommendation corroborates the evidence and discussion presented in a previous National Center policy forum. See Taylor et al., *Responsiveness of Training Institutions to Changing Labor Market Demands*, Columbus OH: The National Center for Research in Vocational Education, 1983.

these workers perceive the programs as ineffective or not suited to their needs? Are these workers achieving high levels of reemployment without the assistance of the programs? Are these workers adding to the rolls of public income maintenance programs? Without information about nonparticipants, it cannot be determined whether programs in place (e.g., unemployment insurance, supplemental unemployment benefits) are adequate, whether workers naively expect recall despite massive layoffs or plant closings, or whether local program administrative deficiencies cause the low participation. Yet the policy implications derived from each of these factors are dramatically different.

Although estimates of the size of the displaced worker population vary considerably, forum participants agree that displacement is an employability problem of national concern. It is a problem without easy or immediate solutions, and one that is likely to plague us for years to come. It is our hope that the forum deliberations will add, even if in an incremental fashion, to an understanding of the displaced worker problem and will point toward effective national and local policy directions.

3

RAYMOND UHALDE

Job Displacement and Employment Security: A Workplace Perspective*

INTRODUCTION

A fundamental and enduring goal of our society, according to the Full Employment and Balanced Growth Act of 1978, is the useful employment at fair rates of compensation of all individuals able, willing, and seeking work. Primary challenges to realizing this full employment goal have been and continue to be threefold. The first is to sustain a noninflationary expansion of job opportunities apace with labor force growth. The second is to provide adequate and effective education and employment and training services to economically disadvantaged individuals. The third challenge is to eliminate discrimination in the workplace.

Recent economic events, however, have resurrected still another challenge—a challenge to a concept we have long taken for granted. This challenge may prove small in magnitude when compared to those just cited, yet failure to meet it effectively threatens the hopes and expectations of thousands of Americans. This challenge is to provide employment security—and, therefore, economic stability—for our experienced work force.

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*Points of view or opinions stated in this paper do not necessarily represent the official policy or position of the U.S. Department of Labor.

The concept of employment security for the experienced members of the American work force is central to achieving our objective of full employment. Americans have understandably come to expect that the acquisition of job skills and the dedicated employment of those skills through several years of hard work should adequately ensure their ability to earn a rising standard of living and a comfortable, voluntary retirement. Although involuntary but temporary periods of joblessness are tolerated, the sudden and permanent loss of the ability to be employed at somewhat comparable wages is largely rejected as inherently unfair. To most Americans, the wholesale, permanent displacement of entire classes of experienced workers because of the shrinking or elimination of entire job classifications or industries is an unacceptable outcome of our economic system—unacceptable, that is, unless meaningful mechanisms are available, both public and private, to ensure the restoration of both family welfare and the dignity of work.

Most Americans are well aware that structural changes are occurring in our economy in response to growing internationalization of the American economy, technological advances, higher energy prices, and environmental pressures. Although these structural changes should ultimately increase the productivity, incomes, and well-being of the economy as a whole, significant burdens are imposed on workers who lose long-held jobs when plants close, production lines are permanently idled, or individuals are replaced by labor-saving technology. Certainly the closing of obsolete plants and the continued adoption of high-technology processes are a necessary part of any effort to improve industrial productivity. But if Americans are serious about revitalizing our industrial base to meet current and future economic challenges, we need to be equally vigorous in pursuing human resource policies that ensure that our experienced work force has the skills to complement this economic recovery and that it shares in the long-run benefits.

These requisite human resource policies should encompass public and private mechanisms which go beyond the historical American response of compensation or severance pay. Compensation partially addresses the obvious problem of distributional equity, but it is inadequate in several respects. Compensation alone is an ineffective device with which to marshall cooperative responses by affected workers to government policies that threaten jobs, such as trade liberalization or deregulation. Compensation alone is also a weak tool with which to foster consensus building in the workplace—a process by which labor and management jointly recognize and act upon their mutual interests in improving the competitiveness of the enterprise.

Compensation is ultimately not enough, because for many workers it fails to ensure continued employment, or even employability, at satisfactory wages. And employment security is essential for restoring individual and family welfare.

Enhancing employment security for workers threatened by job displacement is a responsibility shared by business, labor, education, and government. No single segment of society can or should be exclusively charged with this critical task. Neither should any segment of society be absolved of responsibility.

This nation has experienced permanent sectoral and regional declines in the past that have generated large-scale labor displacements. Familiar examples are the virtual disappearance of the textile and footwear industries in New England and the dramatic and enduring, long-term decline in agricultural labor. These examples, coupled with the historical absence of any sustained, positive public adjustment policies, may serve as benchmarks against which Americans are expected to judge the severity of current structural changes and the appropriateness of government intervention. This argument, however, implies that these previous structural changes were accommodated efficiently, without government assistance.

This is hardly the case. Bluestone and Harrison (1982) recently documented the all-too-frequent incidence of downward mobility among New England textile and footwear workers. Hathaway and Perkins (1968) examined Social Security work history files and concluded that "the massive reduction in the agricultural labor forces that we observe is a process of trial and error, and the errors have been very costly to hundreds of thousands of people individually and to society at large" (p. 352). Specifically, their analysis reveals that nearly one-half of the persons changing from farm to nonfarm employment in a given year sustained a subsequent loss in earnings, despite the low-wages typically associated with farm work. This was especially true for farm workers over forty-four years of age and for blacks. High rates of return movement to farming were also evident, particularly for older workers and blacks.

In fact, the gross flows into and out of farming reveal the trial-and-error nature of the adjustment process. On the average, 14 percent of the farm work force changed to exclusively nonfarm employment each year between 1957 and 1960; but for every ten farm workers who obtained nonfarm employment, nine individuals took up farming—the great majority of whom were former farm workers. The rationale for this high degree of mobility into an industry widely known to be in permanent decline is demonstrated to be largely one of economic necessity. Those who returned to farm work had both lower rates of pay and more unemployment in their nonfarm employment than former farm workers who remained in nonfarm jobs, and those who returned to agriculture experienced immediate increases in earnings.

The picture drawn by these and other studies hardly suggests optimal labor market efficiency. On the contrary, the historical record, the earnings-loss literature, and the distributional equity principle clearly justify a potential role for government in the adjustment process. The important public policy question is, can we develop effective programs that improve the performance of the market?

This chapter fouses primarily on the adjustment assistance role of the private sector, both labor and management. This workplace perspective derives from three impressions. First, many involuntary and permanent separations from employers could (and should) be prevented if the distinction between job displacement and employment displacement were appreciated. Second, many have focused recent attention on the most severe and tragic manifestation of structural change—plant closings and mass layoffs; yet individual layoffs that constitute permanent employment displacement occur constantly but invisibly (National Council on Employment Policy 1983). Internal labor market mechanisms are probably best suited to deal initially with these situations. Such adjustment mechanisms traditionally include seniority ladders, job restructuring, transfer rights, retraining, downgrading (with or without bridge payments), phased retirement, and early retirement. Third, more attention should be given to actual and potential adjustment mechanisms that the workplace affords, so that public sector responses are designed to complement and expand on private actions, rather than substitute for them.

Before discussing workplace adjustment mechanisms, however, it will be useful to define some terms, explore a number of related implications, and briefly review the empirical literature on plant closings and earnings losses.

DEFINITIONS AND SOME IMPLICATIONS

During the late 1950s and the 1960s, several labor market analysts were concerned that technological change would displace large numbers of workers who, because of changing job requirements, would not be readily absorbed in new employment. The automation and cybernetics scare was one stimulus of proposals for a guaranteed income (Theobald 1966) and was the principal, initial focus of the Manpower Development and Training Act of 1962. The worst fears were never realized. By the end of the decade, the unemployment rate had been reduced to its lowest level in sixteen years—a rate unmatched since.

In reviewing the debate of that period, Doeringer and Piore (1971) attribute part of the error to "a confusion between the rate of technological change and job displacement on the one hand, with the rate of employment displacement on the other" (p. 193).* *Employment displacement* accords with a definition of a displaced worker: an individual involuntarily separated from an employer because the job has been eliminated. These workers comprise the population at risk. *Job displacement* refers to the elimination of a particular job, independent of whether the individual worker is ultimately separated from the firm (see Hunt and Hunt 1983). This distinction is important to understanding how traditional fears of labor-saving automation are heightened during downturns in economic activity.

Job displacement is an internal labor market concept. Jobs are eliminated either when production techniques change or when entire production processes are abolished. When the former occurs, workers displaced from jobs are ensured continued employment with the firm only to the degree that there exist vacancies created by attrition or expanded production.** During a recession, given rates of technological change and job displacement result in a higher rate of permanent displacement from the firm, because (1) vacancies within the firm are lower than normal and (2) employer resources available for retraining and otherwise facilitating retention are limited.

The job displacement rate itself is likely to increase during a recession, even if the rate of technological change remains constant, because of accelerated disinvestment in obsolete equipment, production lines, and entire plants. When production lines or plants are permanently closed, job displacement and employment displacement are obviously simultaneous. In addition, recessions not only increase the rate of permanent employment displacement, they also aggravate the impact by making it very difficult for those displaced to find new jobs with new employers.

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*I have modified Doeringer and Piore's (1971) analysis, somewhat.

**Vacancies alone do not ensure retention. The preferences or tastes of the employer for retaining experienced workers are also a factor. Some employers exhibit more loyalty toward their existing work force than do others. The existence and terms of collective bargaining agreements also influence employer preferences in this area.

Two implications emerge from this brief analysis. First, although it is not yet clear whether the rate of technological change has increased, the amount of permanent employment displacement attributable to ongoing technological advances probably has increased during the recent recession. Recessions normally do weaken the effectiveness of workplace adjustment mechanisms, but the severity and length of the recent downturn have virtually eliminated their usefulness.

Second, the weakening of workplace adjustment mechanisms during recessions, in conjunction with recession-induced disinvestment, further blurs the distinction between cyclical and structural unemployment. Recessions quicken the pace of disinvestment in obsolete plant and equipment—the labor destruction phase of the capital investment process. Many workers who whould be displaced gradually (and less visibly) over time in the absence of the recession are suddenly and permanently laid off.

From this discussion it may be seen that the recent recession, augmented by relatively sudden surges in import competition, have concentrated in time, as well as geography, a large stock of workers permanently displaced from former employers. As a lower bound, this population-at-risk numbers at least two hundred fifteen thousand—the job losses that resulted from the more than six hundred plant closings recorded in 1982 (Bureau of National Affairs 1983).

The upper bound is much more difficult to identify. Jobs are eliminated because of permanent reductions in demand for either the goods and services workers produce or the skills they possess. This suggests a declining industry and declining occupation proxy. According to a Congressional Budget Office (CBO 1982) estimate, between 1.6 and 1.9 million persons were job losers from declining industries or declining occupations in early 1983.* This constitutes about 15 percent of current unemployment. Yet a broader definition includes all job losers not awaiting recall. During a high-employment year, such as 1978, this definition constitutes about 30 percent of the unemployed (40 percent during 1982) (Council of Economic Advisors 1983). This definition is particularly unsatisfactory, however, because it signals no information regarding the status of the vacated jobs.

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*This estimate is based on middle and high trend growth rates, and assumes that two-thirds of those from declining occupations are outside of declining industries.

If the CBO proxy is accepted in enumerating the size of the displaced worker population-at-risk, it should also be recognized that not all displaced workers are equally at risk. Some displaced workers experience little difficulty in obtaining new employment at comparable wages. The CBO, for example, identifies only about two hundred fifty thousand persons who are job losers from a declining industry or occupation *and* who are unemployed for more than twenty-six weeks. This count, however, omits early withdrawals from the labor market, as well as those who have found work, maybe part-time, at considerably reduced wages and skill levels—the underemployed. In addition, the twenty-six week standard is arbitrary. A fifteen-week standard, for example, would increase the estimate by 80 percent or more.

A number of findings (reviewed next) suggest a high incidence of early labor force withdrawal and part-time work following a plant closing. Given these findings, and a less stringent standard to define long-term unemployment, it seems likely that between five hundred thousand and seven hundred fifty thousand workers have not only been displaced from old jobs that have ceased to exist, but have also not been efficiently absorbed in new employment. Clearly, more careful work is needed to quantify the scope of the problem.

It is also clear that, despite the uncertainty regarding the scope of the problem, the number of displaced workers experiencing adjustment difficulties is dwarfed by the longstanding problem of disadvantaged workers—disadvantaged youth, female heads of families, and working poor adults in low-wage, high-turnover jobs. The nation's commitment to the employment and training needs of the disadvantaged should be unfailing. Unfortunately, there seems to be an often implicit resentment directed toward the displaced worker issue by some who advocate for the disadvantaged. It is important to recognize that the problems of the two groups are related.

First, plant closings and other job displacements eliminate future job openings created by attrition or turnover that could have been filled by new entrants. Displaced workers themselves recognize this. Displaced autoworkers in Detroit and displaced coal miners in West Virginia express an overriding concern for the job opportunities that will be unavailable for young people in the future—generally the low skilled. Second, to the extent that employers are able and willing to retain and retrain experienced workers displaced from jobs elsewhere in the firm, vacancies in a firm are denied to new labor market entrants. Third, displaced workers who have limited marketable skills will ultimately compete with the disadvantaged for low-skilled jobs. Lastly, low-skilled, often unionized manufacturing jobs have meant the difference between poverty and economic prosperity for millions of workers with limited education and training (Drucker 1983). In order to guard against polarizing the American labor force, the nation must seek out comprehensive and complementary human resources policies.

THE EVIDENCE ON EARNINGS LOSSES AND OTHER ADJUSTMENT PROBLEMS

That permanent job layoffs also provoke severe nonfinancial hardships for many workers and their families is beyond question. Displaced workers who manage to maintain their incomes in the face of unemployment do so, in many cases, by making very difficult adjustments in family life-styles. As unemployment is prolonged, however, resources often become severely depleted. This economic deprivation, whether relative or absolute, has been found in several studies to be linked to social and psychological indicators of pathology.

Gordus, Jarley, and Ferman (1981) present an excellent review of past studies that address the effects of job displacement on mental health. They find that the negative physical and mental health outcomes to be expected from plant closings, as distinct from unemployment in the broader sense, are not quite so severe as may be suspected. The authors conclude with this important observation:

> The irony which emerges from the study of the mental health of displaced workers is that, for a time at least, their former stable work histories, their community attachment, and their family stability, provide some safeguard against the early onset of serious difficulties. Yet these very same factors are those which often impede their successful search for new employment which, ultimately, will provide the only secure safeguard against the negative outcomes which have been demonstrated to be consequent upon unemployment. (p. 165)

New employment, however, is often difficult to obtain, especially for older workers, the unskilled, those with less education, and those with more seniority (Jenkins and Montmarquette 1979).* Early labor force withdrawal is all too frequently the mechanism by which workers adjust to permanent dislocation. Females, minorities, and older workers exit the labor force following displacement far more frequently than do prime-age white males. In a study of forty-five plant closings, Holen, Jehn, and Frost (1981) found that 21 percent of females under age forty and 29 percent of those over forty had zero earnings in the calendar year following shutdown. The comparable figures for males were 5 percent and 19 percent, respectively. Part-time employment also increased substantially in the year following shutdown among both males and females over forty. Another multiindustry plant closing study (Jacobson and Thomason 1979) measured labor force withdrawals ranging from 17 to 22 percent for prime-age males, from 28 to 42 percent for prime-age females, and more than 50 percent in every industry for workers over fifty-three years old.

Of course, many workers do adjust to diplacement by finding new jobs with new employers. Even then, however, many workers lose compensation when measured against what would have been earned had there been no displacement. Such "earnings loss" studies have been numerous, especially in the case of plant closings (see Holen 1976). Although the studies are numerous, important consistencies emerge from the findings. Most importantly, older workers are found to experience larger earnings losses than younger workers. Losses, as might be expected, are higher where job opportunities are limited, in smaller labor markets, and when unemployment rates are high (Jacobson and Thomason 1979; Jenkins and Montmarquette 1979).

Earnings losses also vary substantially by industry (Holen 1976). Losses are greater in high-paying unionized industries. In autos and industrial chemicals, for example, earnings losses average above 20 percent in each of the first two years following layoff. For industrial chemical workers, substantial losses persist after four years. For autoworkers, the old earnings path is regained, on average, in four to five years. For male textile workers, on the other hand, earnings losses average 14 percent in the first year after layoff, and are eliminated by the third year. For female textile workers the losses are larger and more enduring.

The question that these plant closing studies address is: What are the earnings losses of displaced workers when compared to workers who are not laid off? Another relevant question to ask is: How do permanently displaced workers fare when compared to the general population of unemployed persons? On this question, the research is not exhaustive, but the available evidence is consistent with the findings of the studies just cited.

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*See Gordus et al. (1981) regarding unskilled versus skilled or white-collar workers.

The 1979 Mathematica study (Corson et al. 1979) of the Trade Adjustment Assistance (TAA) program has found that TAA recipients who were not recalled by their former employers experienced longer initial spells of unemployment than did similar recipients of Unemployment Insurance (UI). Regression results also suggest that TAA recipients who were not recalled and who changed employers had earnings in their new jobs that were 18 percent lower than were those of similar UI recipients.

In another study, Crosslin, Reed, and Wandner (1981) analyzed data on UI claimants in Pennsylvania from 1969 to 1979. Workers were classified as displaced if both their posttermination employer and industry were different from the job held prior to layoff. Given this definition of permanent displacement, the findings show that the duration of compensated unemployment lasts five weeks longer for displaced workers than for other, similar claimants, and earnings losses are significantly greater for displaced claimants. More importantly, the longitudinal nature of the data permit the measurement of the impact of displacement over time for different cohorts of workers. The results suggest that earnings losses (measured in constant dollars) for displaced workers have increased significantly since the 1974-1975 recession.

One study deserves mention because its findings contradict earlier work. Crosslin, Hanna, and Stevens (1983) utilize longitudinal UI data from Missouri and Nevada to determine whether termination from a locally declining industry is a practical identifier of displaced workers. The study reveals that terminees from industries experiencing large employment declines (more than 5 percent) received quarterly wages upon reemploymnet that were five hundred to one thousand dollars less than those claimants from nondeclining industries. Furthermore, terminees from industries experiencing large employment declines in Missouri were unemployed at least three weeks longer than were those from nondeclining industries. This appears to contradict Bendick's (1983) work, which uses national industry employment trends. Bendick reports no significant correlation between layoff from a nationally declining industry and reemployment success. Crosslin, Hanna, and Stevens (1983) also note that workers over age forty-four and those with less education have lower post-UI earnings.

The Crosslin, Hanna, and Stevens study (ibid.) is also important for another reason. From several years of plant closing research, it is clear that all displaced workers are not equally at risk of experiencing severe adjustment problems. However, public resources available for employment and training services are scarce. The study develops administratively feasible techniques for identifying those displaced workers most in need of adjustment assistance. The Job Training Partnership Act (JTPA), as interpreted by the implementing regulations, clearly places the identification responsibility squarely on the shoulders of state governments. Nevada is to be commended for sponsoring careful (though preliminary) work in this vital area.

PRIVATE ROLES AND PUBLIC RESPONSIBILITIES

Certainly, state governments are not solely responsible for addressing the displaced worker problem. No single level of government, nor any single segment of society, is exclusively responsible for achieving the nation's human resource objectives in this area. In fact, the private sector is uniquely situated as a first line of defense to enhance the employment security of the experienced American work force.

Plant closings and permanent mass layoffs represent the most severe and costly manifestation of structural change. Such displaced workers constitute an obvious target of concern and are, appropriately, the primary focus of Title III of the JTPA. Yet individual, permanent layoffs of experienced workers occur constantly and less visibly. To the extent that these layoffs derive from the elimination of particular jobs, they also constitute employment displacement. It is in this area that the private sector—both labor and management working together—is best suited to minimize employment displacements.

For decades, the technological superiority of American industries, the educational attainment of the American work force, and the availability of large and expanding markets have acted as a shield behind which employment security could be provided at relatively high wages. But technology and capital are readily transferable internationally now, and our own national rate of growth in productivity has lagged in recent years behind that of most of our trading partners. Add to this the recent and rapid appreciation in the value of the dollar, and the result is that large sectors of the American manufacturing base face intense international competition. In fact, the

American manufacturing trade balance showed a deficit in 1982, the first such deficit since 1978.

In order to match foreign competition, threatened manufacturing firms will probably have to rely still more heavily on automated industrial equipment. In addition, the way in which American firms organize production may have to be radically altered (Reich 1983). Mass production industries may be required to adopt just-in-time production techniques or even shift to batch production processes.

If these or similar changes seem necessary and obvious, then it should also be clear that such changes threaten to cause substantial job displacement. To be sure, more jobs will ultimately be lost in firms that do not vigorously pursue technological change than in those that do. In either case, however, the issue of job displacement remains.

Fortunately, there appears to be a growing realization by labor and business (Lovell 1982a; Mills 1983) that they have a mutual interest in improving the competitiveness of the firm and in enhancing employment security. In many firms and in some industries, one or both parties recognize that cooperative strategic planning can minimize the disruptive effects on employees without unduly delaying productivity-enhancing improvements. The principle underlying such efforts is simple: *If workers are secure in their employment and more fully involved in the planning and decision process, they will be more flexible in accepting requisite changes to improve competitiveness.*

On one level, these efforts entail quality circles and employee involvement programs. On a second level, there is union sharing in the strategic planning process, particularly regarding human resource issues. Lastly, there is the strictly European policy of codetermination. The second level of cooperation seems to be most feasible *and* most promising as a vehicle for enhancing both productivity and employment security.

Of course, difficult trade-offs are involved. Employers will not relinquish traditional management prerogatives unless (1) compensation schemes enable wage gains to approximate increases in productivity; (2) outdated and restrictive work rules designed solely to protect redundant jobs are eliminated (Mills 1983); and (3) cumbersome and expensive grievance procedures are revamped while the legitimate interests of workers continue to be protected. These and other issues are important items on management's bargaining agenda.

The traditional objectives of trade unions, on the other hand, have been to protect job security, to improve the conditions of work, and to negotiate collectively for a larger share of the rewards from production. Trade unions have no intention of discarding these objectives, nor should they. Neither should they be expected to dispense totally with the adversary relationship with management. Rather, some unions, such as the United Auto Workers (UAW) and the Communications Workers of America (CWA), now recognize that jointly administered programs for retraining and human resource development are better guarantors of employment security than are rigid work rules.

An extraordinary report issued by the CWA's Committee on the Future explicitly emphasizes that the concept of employment security should replace job security (Communications Workers of America 1983). To achieve this objective, the CWA reached a landmark agreement with the American Telephone and Telegraph Company (AT&T). Under the settlement, AT&T will fund two types of training programs, career development training and job displacement training, with joint union and management training advisory boards established to evaluate and oversee these efforts. Employee participation is voluntary and on the employee's own time. The agreement also sets up several income maintenance options for workers who face reassignment or layoff because of technological change. Further, the parties have a common interest forum that meets regularly between negotiating periods. The purpose of the forum is to review innovative approaches to enhance company competitiveness and to improve employment security. These and other provisions of the agreement are designed to enhance the flexibility of workers in an industry that may require constant retraining as technologies change.

The UAW and Ford Motor Company have also negotiated a joint Employee Development and Training Program. The purposes of the program are as follows:

- To arrange for career counseling, retraining, job search training, and placement assistance for laid-off employees

- To assist in designing and obtaining appropriate career counseling, training, retraining, and personal development for active employees

- To support local and national UAW-Ford employee involvement efforts and other joint activities

- To provide opportunities for the exchange of ideas and innovations with respect to employee development and training needs (UAW-Ford National Development and Training Center 1983, pp. 1-2)

The program is coordinated by the UAW-Ford National Development and Training Center, under the direction of a joint governing body. Ford contributes five cents per hour worked to fund the program and the center. Unions have reached similar agreements with General Motors (Hunt and Hunt 1983) and with International Harvester.

The International Association of Machinists and the Boeing Aircraft Corporation have also agreed to establish a joint training advisory committee to consider the impact of new technology on the workplace. The committee will (1) identify areas of skills to be required by the company in the future; (2) develop courses to provide the skills; (3) develop basic skill courses that will be prerequisites for additional training; (4) develop criteria for selecting candidates for training, giving priority to laid-off employees during recall; (5) set up criteria to determine successful completion of the courses; and (6) develop a system to refer employees between primary locations. The program will be funded by the company.

Of course, employers in a number of nonunion firms recognize the value of employment security in fostering flexibility among their employees. Since 1970, more than seventeen thousand IBM employees, for example, have transferred to new job responsibilities. Of these, over seven thousand were retrained (Jacobson 1980). Obviously, IBM's healthy and stable growth path over the past two decades facilitates such efforts. Nonetheless, the company's commitment to the needs of its employees is also apparent.

Despite these impressive yet sporadic beginnings, plants will continue to close, and individual job displacements will continue to result in permanent layoffs, especially in slow-growing or declining firms, where vacancies are limited. Even in these instances, however, it is now clear that the private sector can do more than it has in the past. Adequate advance notice of a mass layoff or shutdown is a first and absolutely necessary, though not sufficient, condition for implementing effective adjustment strategies. This will continue to be an important bargaining and legislative issue, and one in which labor and responsible employers will ultimately prevail.

Given early warning, some employers and unions have been able to implement elaborate retraining, outplacement, and relocation services. Such was the case with the Armour shutdowns in the early 1960s and, more recently, with the Brown and Williamson Tobacco Company in Louisville. More typically, employers can provide outplacement services and career continuation counseling. The well-publicized Canadian Manpower Consultative Service assists in the formation of employer-employee committees that provide outplacement services. McKersie and McKersie (1982) have documented these and other instances of "best practice."

When these private efforts are exhausted, the responsibility for addressing the displaced worker problem shifts to the public sector. The federal government funds and the states administer a dislocated worker program under Title III of the JTPA. The program is designed to provide job search, counseling, retraining, and relocation assistance to eligible individuals. Eligibility is broadly defined to include (1) those on layoff with little chance of reemployment in their old industry or occupation; (2) plant-closing victims; and (3) the long-term unemployed, especially older workers. The U.S. Congress appropriated $110 million for the program in fiscal year 1983, and the Reagan administration has requested $240 million for 1984. The latter amount, along with state matching funds, is intended to serve about one hundred thousand individuals during the year.

The program has started slowly, with a minimum of technical assistance and guidance provided by the U.S. Department of Labor. Whether the program will succeed is much too early to tell. Nonetheless, Congress served this nation well in instituting a formal structure for retraining displaced workers. As is the case with the private initiatives outlined earlier, however, the JTPA displaced worker program is only a beginning. The full implementation of the JTPA will not—and should not—close out the continuing search for more effective public and private responses to the diplaced worker problem. To that end, the following policy issues are raised.

- This chapter argues that traditional workplace adjustment mechanisms can be modified and augmented in ways that simultaneously enhance employment security and contribute to productivity growth.* Specifically, these include cooperative human resource planning between labor and management to retrain and retain those displaced from particular jobs.

How valid is this proposition, however, and how applicable is it across firms and industries? Can workplace mechanisms be enhanced enough to reduce significantly the number of permanent displacements from employers? Could the government foster such approaches to managing technological change by adopting, for example, the Canadian Manpower Consultative Service model?** Bluestone and Harrison (1982) refer to this as an industrial extension service.

- Because most training and retraining in this country is provided within the firm, and because economic theory suggests that industry may underinvest in such training, it is tempting to explore government tax incentives as a mechanism for promoting greater investment in training.

  Can *effective* tax incentive schemes be devised, however, given our considerable ignorance concerning the amount, distribution, and responsiveness of existing workplace training? Should such schemes be tied to new physical capital investments or be more generally applicable?

- The federal-state Unemployment Insurance system is this nation's primary income support mechanism for unemployed, experienced workers. Can and should the UI system be modified or enhanced to provide meaningful positive adjustment assistance to permanently displaced workers? Can this be achieved without violating the integrity of the system? Can this be achieved without adding significantly to the growing burden of payroll taxes—a tax on the employment of labor?

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*According to Rees (1973, p. 137), "Union resistance to labor-saving technical change within an industry can often be moderated by careful management of change, which will minimize its effect in creating unemployment." In addition, Lovell (1982b) claims that, "These innovative (bargaining) approaches, each different, bring management and labor into the kind of partnership of common need that potentially serves the goals of productivity improvement and those of increasing the worker's contribution toward his own job security."

**Roughly half of the Service's activities encourage collaboration between workers and employers on workplace changes required to save struggling firms or accomomodate expansion and modernization (see McKersie and McKersie 1982, pp. 40-41).

- Education policy is a popular topic of recent debate. Much discussion revolves around such issues as merit pay and increased emphasis on math and science teaching. Other issues are obviously important as well, especially with regard to displaced workers.

  Should high schools and vocational education institutions teach job search and interviewing techniques as a regular part of the civics curriculum? How best may educational institutions be utilized in providing remedial adult education—especially in reading and math—to the many active and displaced workers in need of such assistance? Lastly, how can schools enhance the versatility of our entering work force, so that future career changes are more easily accommodated?

A FINAL NOTE

It is obvious that unless and until our nation gets its macroeconomic house in order, these and other adjustment mechanisms will only serve to reshuffle the unemployment queue. Stable, sustained economic growth at reasonable interest rates and exchange rates is a prerequisite for successfully addressing the problem of displaced workers.

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4

NANCY GORDON

Job Displacement and Employment Security: Reactor Comments*

Uhalde's chapter presents an excellent overview of what is known about displaced workers. Consequently, relevant comments focus on the policy issues the chapter raises, which include the following:

- How many displaced workers are there?
- What are their characteristics?
- What are possible policy goals in this area?
- How could displaced workers be helped?
- What might the federal role be?

THE NUMBER OF DISPLACED WORKERS

In order to answer the question, "How many displaced workers are there?" it is necessary to define the term "displaced." There seems to be general agreement that displaced workers are those whose jobs no longer exist because of structural changes in the economy and who will have substantial problems in becoming reemployed. Specific ways of translating these ideas into the number of "displaced" workers, however, leads to a wide range of estimates, from millions (which is probably a considerable overestimate) to a hundred thousand (which seems low). In fact, the range suggested in the chapter—between five hundred thousand and seven hundred fifty thousand—is almost exactly the same as the most recent estimates developed by the Congressional Budget Office (CBO).

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*Points of view or opinions stated in this paper are the author's own and do not reflect the views of the Congressional Budget Office.

There are several reasons for the wide range of these estimates. First, available data do not address why a job has been lost (e.g., because of a mass employment cut, a temporary reduction in production, or poor job performance by the employee), nor do they measure the difficulty of finding a new job. Hence, proxies must be used, and opinions differ about which proxies are best. Possible proxies for identifying which jobs have permanently disappeared include (1) whether or not the industry is declining in size or employment, (2) whether or not the number of jobs in an occupation is shrinking, or (3) a combination of the two. Possible proxies for measuring a person's difficulty in finding a new job include (1) personal characteristics (e.g., age, length of unemployment) and (2) whether or not the geographic area's economy is declining.

A second problem in estimating the number of displaced workers arises from the difficulty of separating cyclical from structural unemployment. Of particular interest here is the chapter's discussion of the effects of recessions, which not only create cyclical unemployment, but also add to structural unemployment because of their impact on slowly declining industries. Such industries, whose shrinking employment might otherwise be handled by attrition, are likely to fail more quickly during economic slumps. This faster decline may, in turn, lead to an increase in the number of "structurally" unemployed (i.e., displaced) workers.

The chapter's basic conclusion—that much more work is needed to define and estimate the number of displaced workers—is sound and deserves close attention. It is difficult for Congress to wrestle with decisions about whether to provide assistance for displaced workers, particularly if there is strong disagreement about the magnitude of the problem. With more accurate, reliable information on the number of displaced workers, Congress should be better able to do what it is elected to do—namely, to make the hard value judgments about allocating limited public resources.

THE CHARACTERISTICS OF DISPLACED WORKERS

In large part, the answer to the second question, "What are the characteristics of displaced workers?" is implied when the general idea of "displacement" is translated into specific numerical estimates. There are a number of crucial questions for policymakers concerning these characteristics, however, which may partially explain the disagreement over the number of displaced workers. First, are displaced workers concentrated in a few specific parts of the northeast and north central regions, or are there pockets of displaced workers nationwide? Are most of them older, experienced workers, or are many of them relatively new entrants to the labor force? Do a high proportion of them lack basic reading and mathematical skills, or have they successfully completed their educations? Are many of them willing to relocate to a different part of the country, or are they strongly tied to their current communities?

Without the answers to these questions, it will be difficult to design effective policies to aid displaced workers under Title III of the Job Training Partnership Act, for example. Fortunately, more information, based on a special supplement to the January 1984 Current Population Survey, should be available in August 1984.

POSSIBLE POLICY GOALS

The chapter focuses on a goal of "job security," but how is that really defined? It appears to mean continuing employment with the same firm, especially where the distinction between job displacement and employment displacement is discussed. When continuing employment with one firm can be achieved, it is clearly desirable, but often that will not be possible. In those cases, the basic goal should be to help displaced workers find other, comparable jobs reasonably soon after being laid off. Generally, such a goal should include helping the workers find jobs that have similar characteristics (e.g., hours of work, wages) to their previous ones.

In some cases, however, comparable new jobs cannot be found. This is especially likely if the workers have been paid more than the "market" wage for their skills. For example, in 1982, steelworkers earned 60 percent more, and automobile workers earned 55 percent more, than the overall average for manufacturing industries, in part because their industries maintained real wages during inflationary periods, whereas most other manufacturing industries did not. (If fringe benefits are included, the differences are substantially greater.) Moreover, employees' wages relative to their productivity often vary over their work lives, being relatively higher for senior workers. Therefore, displaced workers from certain industries, especially many older displaced workers, may have to adjust to lower wages and lower standards of living in new jobs.

SPECIFIC OPTIONS

Before turning to particular options for aiding displaced workers, two general points should be made. First, there has been much discussion of technological change as a cause of displacement. As the chapter aptly points out, however, avoiding technological change or following protectionist policies to slow the rate of decline in some industries may result in *more* jobs lost in the long run, not fewer. In essence, the best way to increase the number of jobs is to improve the competitiveness of American industries and to deal with the problem of displacement directly—for example, through aid to the affected workers and communities—in order to minimize its impact on them.

Second, the chapter points out that, in many cases, a combination of private and public assistance may be much more effective than a government program alone. This observation raises a crucial question, however: How much more could firms do to help their displaced workers? Firms vary considerably in how they handle cutbacks in employment. Some give little, if any, advance notice of separation, no job counseling, and little job search assistance. Although some firms could expand this type of activity, could many of them realistically retain more workers than they now do in periods of decline? There is a lack of reliable data on this topic. Firms generally do seem to try to keep workers, even when some retraining is necessary, but often the skills of laid-off workers are so different from the skills needed to fill any vacancies that retraining is not feasible.

This observation, if true, suggests that many firms may have little room to retrain and keep more of the employees they are laying off. Instead, firms may need to provide aid by teaching workers job search skills and giving them information about existing jobs, both in the same locality and in others. Schools may be able to help, perhaps by providing more classes specifically designed for adults. Remedial classes in basic skills may be especially useful. On the other hand, the chapter's suggestion that job search skills be taught to high school seniors should be evaluated in terms of its ability to improve the efficiency of labor markets in general, rather than on the basis that future generations of displaced workers might fare better.

In its discussion of specific options, the chapter gives several reasons why income support alone is not enough, and suggests that Unemployment Insurance (UI) benefits could be used as vouchers to encourage employers to hire long-term unemployed workers. Although this approach may help some unemployed workers to obtain jobs they would not have found otherwise, it would, in essence, reallocate jobs rather than increase employment. Having more people unemployed, each for a shorter time, would carry some advantages, but if those who then became unemployed were also eligible for UI, federal costs would rise.

A second suggestion for aiding displaced workers is to provide tax incentives to firms for training, in order to deal with their tendency to provide less than an optimal amount of training because of externalities. The incentives could apply to training of regular employees as well as of displaced workers. A major difficulty with this approach is that most training is already provided by firms, so that the question becomes one of how to encourage more training without subsidizing what firms would provide in any case. One possibility would be to provide tax incentives only for training in excess of a past year's amount. But even then, since firms appear to be increasing these expenditures over time, relatively little new training might be stimulated for each dollar of revenue loss.

THE FEDERAL ROLE

The appropriate federal role in aiding displaced workers depends on many factors, including the magnitude of the problem and the approaches that are judged to be most cost-effective, as discussed in Uhalde's chapter. But one factor not discussed in the chapter is the priority placed on this problem as compared with other claims on federal expenditures.

The last factor is particularly important in this time of fiscal stringency. There is considerable pressure to restrain total federal spending because of fear that high deficits in 1985 and beyond may weaken the economic recovery by leading to even higher real interest rates than we are currently experiencing. Furthermore, unless our nation resolves its macroeconomic problems, no employment policies will work, either for displaced or for disadvantaged workers. In essence, this means that Congress will have to make many difficult decisions about balancing tax increases against spending cuts and allocating total spending among competing uses.

In such an atmosphere, it seems unlikely that displaced worker programs will be funded by the federal government at levels high enough to serve all eligible applicants. Consequently, the more aid that firms, state and local governments, and community organizations can provide, the higher the proportion of displaced workers that will be helped. The Job Training Partnership Act addresses this point by requiring matching funds from states. In fact, one advantage of the limited resources available for all employment and training programs is that program managers are strongly encouraged to be as efficient as possible, for example, by providing the least expensive services (such as job search assistance) first, and reserving more expensive ones (such as training) for those who still do not find jobs.

In conclusion, Uhalde's chapter reviews much of what is already known about displaced workers, raises important questions, and makes some provocative suggestions about policies to deal with the problem. It is an excellent introduction to this Forum.

Private or Public Responsibility

5

BARRY BLUESTONE

Industrial Dislocation and Its Implications for Public Policy

Despite an initial surge of economic recovery and the appearance of unemployment rates below the double-digit level, the American economy continues to experience a thorough and rapid industrial transformation. It is one in which sectoral and regional dislocations pose significant challenges for government policy. Deindustrialization of a sizable segment of the older mill-based and smokestack industries—even when set against real growth in high-tech, service, and retail trade employment—is creating substantial labor displacement that can only be cured by an overhaul of our economic, educational, and training institutions. The nature of this economic challenge and how government may respond to it is the central focus of this chapter.

Following consumer (and government procurement) preferences, the unfettered private market generates some of the required signals necessary to guide decisions about where investment and disinvestment should take place (i.e., in which industries and in what locations). But no mechanism is inherent in the private market that produces sufficient information about the socially optimal velocity or rate at which that investment/disinvestment should occur. Supply and demand can tell us what direction to take when we are in a condition of disequilibrium, but it does not tell us how fast to go or prevent us from overshooting the mark. (In appreciation of this fact, standard textbook supply-and-demand diagrams have but two dimensions—price and quantity; they are virtually never drawn with a third axis representing time.)

As a result of inadequate market signals, private sector adjustments to new economic conditions are often clumsy and costly. Disinvestment is too rapid in particular industries and regions while capital stampedes chaotically into others. The auto and steel industries in communities such as Youngstown, Buffalo, and Flint are abandoned too hastily, while investment pours into Houston and Miami at a pace much too rapid for successful absorption. In the process, millions of jobs are permanently destroyed, with few of the displaced workers being "job-ready" for skilled openings in expanding sectors or regions. The unemployed are forced down the occupational ladder into less productive and rewarding jobs. Moreover, in the current industrial transformation, two factors stand out as critical: (1) the overwhelming speed at which deindustrialization has been occurring and (2) the evolving "dualism" in the overall industrial structure. The interaction of these two has caused catastrophic unemployment and occupational "skidding."

In view of this economywide transformation, the government must develop policies to modify the rate of capital mobility and invest in physical and human capital with the goal of avoiding or at least minimizing these social costs. This requires public sector intervention on both the labor demand and labor supply sides of the market. Such public intervention in the form of specific industrial policies, as well as education and training programs, is feasible and desirable.

DEINDUSTRIALIZATION

Relying on data from Dun & Bradstreet (D&B) on approximately 5 million establishments, Bluestone and Harrison (1982) have calculated that over 22 million jobs disappeared between 1969 and 1976 as a consequence of establishment closings and long-distance relocations. The number of jobs lost amounted to 38 percent of the existing jobs in the private nonagricultural sector in 1969. Within the manufacturing sector alone, establishments with one hundred employees or more had only a 70 percent probability of surviving to the year 1976, conditional on their operation in 1969. Thirty percent closed their doors permanently or moved elsewhere. Analysis of more recent D&B data by the Business Microdata Project at The Brookings Institution indicates that, since 1976, the rate of employment loss due to plant closings and outmigrations has actually increased significantly. Fully one-third of all private sector jobs in 1978 had disappeared by 1982 (Harris 1983).

Schmenner (1980) has demonstrated a similar phenomenon among establishments owned by 410 of the largest manufacturing corporations in the United States. Between the beginning of the 1970s and 1978, these large corporations relocated, shut down, or divested themselves of over 21 percent of the more than 12,000+ establishments they owned and operated at the beginning of the period. Of this number, more than half were simply shut down or relocated (8.4% and 3.7% respectively) rather than sold to new owners. These same corporations opened over 1,600 new plants and acquired nearly 3,400 during this period, but for the most part they were in new industries and different regions, providing little employment opportunity for those immediately affected by the closings.

In spite of all this evidence, the claim of deindustrialization has come under intense scrutiny. One of the more careful studies in this regard, undertaken by Robert Z. Lawrence (1982), concludes that American deindustrialization is a myth. Lawrence notes that *aggregate* manufacturing employment levels remained nearly constant over the alleged period of deindustrialization, 1973-1980, and that, if anything, every other industrial country deindustrialized faster than the United States. Manufacturing establishments employed 20.3 million in the United States in 1973 and only slightly less, 20.2 million, in 1980. Even more striking is the evidence on international trends in employment. Lawrence expresses it succinctly: "The United States increased its employment in manufacturing *more rapidly* than any other major industrial country including Japan" (p. 26) (emphasis added). Indeed, the United States was the *only* OECD country to have a positive growth rate in aggregate manufacturing work hours between 1973 and 1980 (see table 5-1). More rapid growth in productivity in Japan and Europe, combined with relatively slower growth in European output, is responsible for what appears to be worker deindustrialization everywhere *but* in the United States.

TABLE 5-1

ANNUAL PERCENTAGE CHANGE IN MANUFACTURING HOURS BY COUNTRY, 1973–1980

U.S.	+ .7	Belgium	– 1.8
Canada	– .3	Denmark	– 2.2
Japan	– .7	Netherlands	– 3.7
France	– 2.1	Sweden	– 2.4
Germany	– 2.6	Italy	– .1
England	– 2.9		

SOURCE: Capdevielle and Alvarez (1981).

Indeed, neither these data nor the aggregate trends can be disputed on face value. But a fundamental problem exists with this approach. From a social efficiency or social cost perspective, the *aggregate* trend in employment is inadequate to prove or disprove anything about deindustrialization if interindustry and interregional worker mobility fails to clear labor markets. What counts in an economy where mobility is imperfect, and thus unemployment severe, are the trends in *specific* industries and regions. Without dispute, worldwide employment in manufacturing is expanding rapidly, but if it is declining sharply in the United Kingdom, for example, the growth in other countries will not in any serious way offset the economic hardship imposed on the British. Likewise, private and social costs are imposed on workers and communities within the United States to the extent that those dislocated from declining industries in particular regions cannot find employment in equally productive jobs in other sectors. The magnitude of these costs is positively related to the rate at which employment is declining in particular sectors and regions and is negatively related to the economic system's capacity to absorb dislocated workers into other sectors. For this reason, the velocity of specific sectoral and regional deindustrialization *and* the overall absorptive capacity of the economy are the proper phenomena to study. Only on this basis can one judge whether deindustrialization is a myth or not.

The actual employment performance of key sectors of the economy is disclosed in table 5-2. Although the flat trend (as opposed to declining trend) in employment is confirmed by the small change (+0.13%) in the number of total manufacturing jobs between 1973 and 1980, production workers did not fare as well and employment in certain key sectors fell sharply.

Overall, the number of production workers declined by almost 5 percent (-693,000), in part as a result of a substitution of supervisory and administrative office workers for production employees.* Moreover, total employment in the radio and television receiver industry declined by over 27 percent, and the motor vehicle, footwear, household appliance, and textile mill product sectors experienced job losses all in excess of 15 percent. Together, the ten sectors listed in table 5-2 with employment losses between 1973 and 1980 accounted for 790,000 fewer

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*Between 1958 and 1980, administrative office and auxiliary employment in manufacturing as a proportion of total manufacturing employment rose from 3.8 to 6.5 percent. Payroll devoted to these nonproduction employees increased from 5.7 to 9.7 percent. Nearly half of this increase has occurred since 1972. See U.S. Department of Commerce, Bureau of the Census (1980), table 1B, p. 6.

TABLE 5-2

PERCENTAGE CHANGE IN TOTAL EMPLOYMENT AND PRODUCTION WORKERS, 1973–1980, AND PRODUCTION WORKER AVERAGE WAGE IN 1980 FOR SELECTED INDUSTRIES

Industry	Total Employment	Production Workers	Production Worker Average Wage
Total Manufacturing	.13%	- 4.7%	$7.27
Durable Goods	2.0	- 3.8	7.75
Nondurable Goods	- 2.4	- 5.9	6.55
Selected Manufacturing Sectors			
Primary Metals	- 9.7	-13.5	9.77
Machinery, excl. Elec.	19.9	14.9	8.00
Elec. Dist. Equip.	-11.2	-16.0	6.96
Elec. Ind. Apparatus	- .5	- 3.8	6.91
Household Appl.	-17.9	-18.1	6.95
Radio/TV Receivers	-27.2	-30.9	6.42
Electronic Comp. & Accessories	25.6	17.7	6.05
Motor Vehicles	-20.3	-25.3	9.85
Aircraft & Parts	24.6	24.6	9.28
Instruments & Related Prods.	27.6	22.4	5.80
Textile Mill Prod.	-15.4	-16.2	5.07
Apparel & Other Prod.	-12.8	-10.5	4.56
Chemicals & Allied Prod.	6.3	2.1	8.30
Tires and Tubes	-12.6	-16.4	9.74
Footwear	-22.0	-23.2	4.42
Selected Retail Trade Sectors			
Department Stores	5.8	7.6	4.95
Eating & Drinking Estab.	51.2	48.7	3.69
Finance, Insurance, Real Estate	26.6	24.3	5.79
All Other Services	37.8	35.8	5.85
All Sectors	16.9%	NA	NA

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics (1981).

jobs. Although not shown in the table, by 1982, another six hundred thousand jobs had been lost in these ten industries alone. Also important, as will be discussed in more detail later, is the fact that the average 1980 hourly wage in the job-loss industries in table 5-2 was $7.17, whereas the employment-weighted hourly wage in the job-growth industries (including those in trade and services) was 23.2 percent lower, at $5.51.

The preceding analysis dealt only with national aggregates. However, within particular regions much dramatic employment activity is taking place. This can be illustrated by tracing employment trends in four key Frost Belt and four large Sun Belt states: Massachusetts, New York, Michigan, and Ohio; and North Carolina, Georgia, California, and Texas.

Table 5-3 presents data on the percentage change in total employment between 1973 and 1980 in major industries in these states. A sharp decline in basic manufacturing is clearly evident in Michigan, Ohio, and New York, where total manufacturing job losses ranged from 10 to 17 percent. On *net*, over two hundred thousand manufacturing jobs disappeared from Michigan in this eight-year period, nine-tenths of them in durables. Ohio and New York each experienced a net loss of over one hundred fifty thousand jobs. In contrast, California increased its manufacturing base by over a fifth during this sluggish economic period, while Texas increased its base by nearly a third and its durables sector by 43 percent. As stated earlier, net manufacturing employment increased by a mere 0.13 percent, nationwide.

Regional shifts in the location of particular industries are notable. Michigan lost nearly 28 percent of its primary metals industry and 23 percent of its jobs in fabricated metal operations; Texas, on the other hand, enjoyed a 27 and 29 percent growth in these two sectors. Similar shifts, often of even greater magnitude, are found in the nonelectrical machinery, the electrical and electronic apparatus, and the transportation equipment industries. Some displaced workers moved to the South to take advantage of these job openings, but hardly enough new jobs existed to fulfill the demand. The consequence has been double-digit unemployment of long duration in a substantial part of the industrial Northeast. With the recession in the late 1970s and early 1980s, it swept into other parts of the country—including the South.

DUALISM

Although deindustrialization poses a serious threat to segments of the manufacturing sector, economywide employment levels continue to expand rapidly. Fifteen million people were added to civilian payrolls between 1973 and 1981 despite unemployment rates that rose from less than 5 percent to nearly 9 (*Economic Report to the President* 1983). So why worry about 2 to 3 million jobs lost in the entire manufacturing sector? The reason to be concerned is that the majority of the newly

TABLE 5-3

PERCENTAGE CHANGE IN TOTAL EMPLOYMENT FOR MAJOR INDUSTRIES IN SELECTED STATES, 1973–1980

INDUSTRY	State							
	MASS.	N.Y.	MICH.	OHIO	GA.	N.C.	CAL.	TEXAS
Total Manufacturing	6.4%	-10.3%	-17.3%	-11.0%	3.3%	2.7%	20.6%	31.5%
Durable Mfg.	20.0	- 4.8	-19.0	-13.1	7.8	17.2	23.3	43.0
Nondurable Mfg.	- 9.6	-15.4	-10.0	- 5.9	.9	- 4.1	15.1	17.8
Selected Manufacturing Sectors								
Primary Metals	—	-24.4	-27.7	-20.0	—	—	- 2.2	27.4
Fabricated Metals	—	-10.0	-22.9	-10.4	4.6	26.3	16.4	29.1
Machinery (excl. Electrical)	42.8	6.3	- 7.3	- 2.0	36.6	36.8	43.9	77.2
Electrical Equip./Electronic	22.6	- 1.1	-14.9	-19.2	30.9	17.1	46.0	88.2
Trans. Equip.	7.8	-12.7	-22.6	-18.6	3.8	101.2	5.6	23.4
Instruments	24.0	4.4	46.1	- 3.7	—	—	60.3	43.8
Textile Mill Prod.	-16.7	-34.1	—	—	- 8.0	-15.0	—	-26.6
Apparel	-10.0	-22.3	—	-22.3	- 3.7	1.8	17.5	8.2
Chemicals	-10.8	- 6.5	5.5	9.8	13.4	8.5	16.3	25.6
Footwear	-29.7	—	—	—	—	—	—	—

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics (1979 and 1981) created jobs are poor substitutes for the ones that are disappearing. A dramatic transformation in the structure of the entire national job distribution is responsible for a serious mismatch between the skills and income needs of displaced workers and the skill requirements and wage levels of the new jobs.

Consider the internal job structures of the growing and declining sectors. The old mill-based industries (e.g., apparel, textiles, and shoes) and the smokestack industries (e.g., auto, steel, tires, household appliances, and petrochemicals) came to be characterized during the period of 1930 to 1980 by relatively small high-skilled/high-wage segments, similarly small low-skill/low-wage segments, and large semiskilled and skilled blue-collar and white-collar middle wage segments. In the automobile industry, for example, a small segment is comprised of relatively highly remunerated managers, skilled designers, and engineers. At the other end of the spectrum, a portion of the smaller shops that supply General Motors, Ford, Chrysler, and American Motors with parts and components offer low wages and few employee benefits. But the vast majority of workers in the industry is employed in fabrication and assembly jobs or in manufacturing support positions that pay annual wages in the $15,000-$25,000 range. The nature of the production process, combined with the demands of the trade union movement, helped create such a "unimodal" distribution of jobs.

The industries that are expanding today have a different employment distribution. *Within* the new high-technology manufacturing industries, the business services industries, and in personal services and retail trade, the distribution of jobs tends to be "bimodal." In the computer industry, for example, relatively high-wage jobs are in computer hardware design, software development, and systems analysis. At the other end of the spectrum, a significant number of low-wage/low-skill jobs are in computer assembly and in low-level programming. In contrast to the auto industry, the computer industry lacks a large, semiskilled, well-paid middle. Similarly, retail trade has developed a polarized distribution of jobs, with a well-paid bureaucracy comprised of managers, buyers, advertisers, and accountants at the top, and part-time, poorly paid sales clerks at the bottom. Again, no middle analogous to the blue-collar assembly worker exists in the auto industry or in the steel industry.

Across industry, the same type of bimodal distribution is developing. As the lower-wage computer assembly jobs are automated or shipped abroad, the computer industry tends to be dominated by the upper mode of the distribution. The lower mode tends to disappear. As discount department stores supplant other forms of retailing and fast-food chains begin to dominate the restaurant business, the low end of these sectors expands most rapidly. Hence, industries themselves seem to be moving to one or the other end of the overall job distribution.

Figure 5-1 provides a general caricature of the old industrial structure and the new one that appears to be developing. As the mill-based smokestack industries decline, the remaining distribution of jobs becomes increasingly bimodal. The result is an economy with a "missing middle," a term coined by Harrison and Hill (1979) to describe the evolving employment structure in Massachusetts.

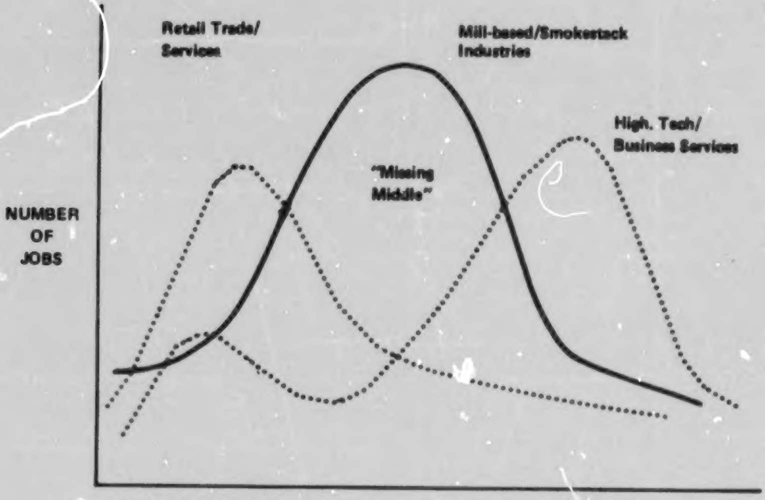

Figure 5-1. Old and new industrial structures

Statistical data to confirm "dualism" is presently quite scanty, but as more research is completed on the evolution of the jobs distribution, the missing middle hypothesis appears to be gaining credibility. One piece of evidence is found in individual industry studies. In research on the retail trade sector, Bluestone et al. (1981a) used the Longitudinal

Employer Employee Data (LEED) file prepared by the Social Security Administration to track the earnings distributions for year-round workers in the New England department store industry. As figure 5-2 indicates, men earned significantly more than women in 1957, but the overall distribution was generally unimodal. By 1975, however, the industry had become highly polarized, as demonstrated in figure 5-3. Women continued to dominate the low-wage sales clerk positions, while the newly created administrative slots went overwhelmingly to men.

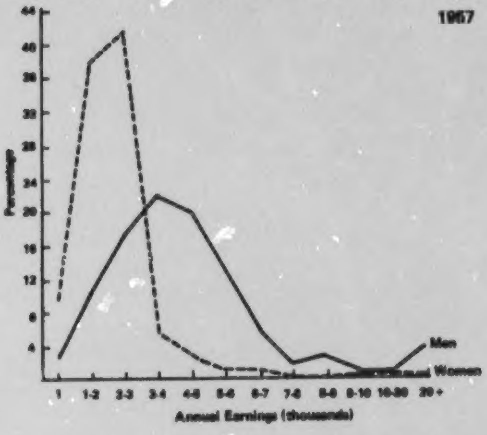

Figure 5-2. Earnings distribution for year-round workers in the New England department store industry, by sex.

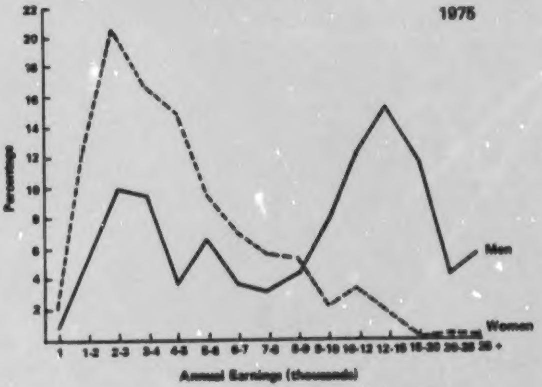

Figure 5-3. Earnings Distribution for year-round workers in the New England Department Store Industry, by sex.

SOURCE: Bluestone et al. (1981a), figures 6.3 and 6.4, pp. 106-107.

The same Social Security data source was used by Alan Matthews (see Harrison 1982, table 11, pp. 76-77) of the Social Welfare Research Institute at Boston College to calculate Gini ratios for a variety of New England industries.* The growing dualism in the department store industry is reflected in a significantly larger Gini ratio in 1975 compared with this standard measure of inequality for 1957-1958. Table 5-4 indicates that other industries may be experiencing the same tendencies toward bipolar earnings distributions. Substantial increases in inequality are found in office machines and computers, electronic components, supermarkets, and hotels and motels—all rapidly growing sectors of the economy. Moreover, as the first row of this table indicates, the Gini ratio for *all* year-round employees in New England increased between 1957 to 1975 by nearly 15 percent, from .332 to .381. Other regions of the country may experience the same tendency toward dualism if their reindustrialization efforts mirror those of this region.

Stanback and Noyelle (1982) have discovered similar trends for the national labor force. Using data from the U.S. Bureau of the Census and the U.S. Bureau of Labor Statistics, the two have investigated the effects of the changing industry-occupation mix on the distribution of earnings. According to their research, the shares of employment in the highest and lowest earnings classes increased between 1960 and 1975, while the share of employment in the middle of the distribution declined. From an apparent unimodal distribution, a bimodal distribution is emerging.

Projected employment growth between 1980 and 1990 as forecast by the U.S. Bureau of Labor Statistics (Carey 1982) adds another dimension to the polarization hypothesis. Of the ten occupations that are expected to produce the largest numbers of new jobs during the 1980s, seven are among the lowest-paying/lowest-skilled occupations in the economy (i.e., nurses' aides and orderlies, janitors and sextons, sales clerks, cashiers, fast-food workers, general office clerks, and waiters and waitresses [p. 26]). On the other hand, many of the up-and-coming fast-growing occupations require substantial postsecondary school skills: paralegal personnel, computer analysts, physical therapists, speech and hearing clinicians, aero-astronautical engineers, economists,

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*The Gini index, a measure of distribution commonly used by social scientists, is constructed so that increases in its value signify growing inequality whereas decreases indicate a more equal distribution. The range in Gini values is bounded by 0 and 1. When the index is 0, perfect equality exists where each individual receives an equal amount of resources. When the index equals 1, "perfect inequality" exists where one individual receives everything and all others get nothing.

TABLE 5-4

CHANGES IN EARNINGS INEQUALITY FOR ALL COVERED EMPLOYMENT AND SELECTED INDUSTRIES IN THE NEW ENGLAND ECONOMY, 1957–1975
(Entries are Gini Coefficients of Inequality)

Industry	Year 1957	 1975
All Covered Employment	.332	.381
Manufacturing		
Women's Outerwear	.325	.352
Paper Mills	.187	.188
Commercial Printing	.315	.279
Shoes	.256	.315
Metalworking Machinery	.270	.294
Office Machines and Computers	.184	.287
Electronic Components	.293	.328
Aircraft Engines	.197	.217
Nonmanufacturing		
Department Stores	.356	.443
Supermarkets	.367	.430
Commercial Banks	.296	.302
Hotels and Motels	.364	.398
Hospitals	.323	.310

SOURCE: Calculated by Alan Matthews of the Social Welfare Research Institute for Harrison (1982).

NOTE: The LEED file contains a one percent sample of the Social Security records of all covered employees who ever worked in the New England states between 1957 and 1973. This table includes only wages and salaries actually earned by workers who were employed in all four accounting quarters of the year.

and brickmasons (p. 27). If these projections prove accurate, one would expect to find even higher inequality coefficients in the future and a more obvious bipolar distribution of job opportunities.

THE DOUBLE WHAMMY: DEINDUSTRIALIZATION AND DUALISM COMBINED

By itself, the deindustrialization of various sectors and regions of the economy would not pose a serious adjustment problem if new comparable jobs were being generated in other industries. But when the evolving structure of employment is bipolar and deindustrialization is extremely rapid, the transition from the old industrial base to the new one is unreasonably difficult for the displaced mill-based or smokestack worker. Deindustrialization and dualism combined sorely try the absorptive capacity of the labor market. Longitudinal data on how workers fare in the labor market after displacement from basic manufacturing industries confirm the fact that many face permanent income loss.

Using the LEED file, Jacobson (1978, 1979) and his colleagues have been able to calculate the earnings losses of permanently displaced, prime-age male workers in a number of industries. To measure this loss, Jacobson calculates the actual earnings of workers in a given industry who remain continuously employed in that sector. This earnings trajectory is then compared with the earnings records of workers who experience permanent layoffs from the same industry. For most cases an immediate drop in income occurs, subsequent to termination, followed by a rise in earnings as those displaced find new employment in other firms. Some job-losers are affected quite adversely, with their earnings falling to zero, whereas others find comparable work almost immediately. The "actual earnings profile" reflects the *average* earnings of the full cohort of displaced workers.

Jacobson's estimates are shown in table 5-5. They indicate that, in the first two years following involuntary termination, the average annual earnings loss ranges from less than 1 percent for workers formerly employed in the production of television receivers to more than 46 percent in steel. Even after *six years*, workers in some industries continued to experience as much as an 18 percent shortfall. Those displaced from the better-paying, unionized industries (e.g., meat-packing, flat glass, automobile, aerospace, steel, and petroleum refining) suffered the greatest reduction in income. But even in the lower-wage sector, including women's apparel, shoes, toys, and rubber footwear, six or more years elapsed before displaced workers caught up with those who had the good fortune to hold on to their jobs.

Each worker's loss in earnings following displacement is a function of what new employment opportunity is available. This is well illustrated by an analysis of displaced New England aircraft industry workers carried out with the LEED file at the Social Welfare Research Institute at Boston College (Bluestone et al., 1981b). Between 1967 and 1972, 31 percent of the workers in this industry were displaced as a result of the sharp downturn in this sector and a substantial increase in subcontracting to other regions. Of the 18,300 displaced workers, 600 were able to locate new jobs in the aircraft industry, but only by migrating out of New England. Sixty-five percent (11,900) located jobs in other "primary sector" industries, 11.5 percent (2,100) found jobs in "secondary sector" industries, and 20.2 percent (3,700) either found no jobs at all or worked outside the Social Security system.

TABLE 5-5

LONG-TERM EARNINGS LOSSES OF PERMANENTLY DISPLACED PRIME-AGE MALE WORKERS

Industries	Average Annual Percentage Loss First 2 Years	Average Annual Percentage Loss Subsequent 4 Years
Automobiles	43.4%	15.8%
Steel	46.6	12.6
Meat-Packing	23.9	18.1
Aerospace	23.6	14.8
Petroleum Refining	12.4	12.5
Women's Clothes	13.3	2.1
Electronic Components	8.3	4.1
Shoes	11.3	1.5
Toys	16.1	-2.7
TV Receivers	.7	-7.2
Cotton Weaving	7.4	-11.4
Flat Glass	16.3	16.2
Men's Clothing	21.3	8.7
Rubber Footwear	32.2	-.9

SOURCE: Jacobson (1978, 1979).

The results of this analysis are reported in table 5-6. Those who stayed in the aircraft industry by migrating to other regions had only 78 percent as much nominal earnings growth as those who were able to retain their New England jobs. Those forced into other primary sector industries (including most durable manufacturing, wholesale trade, and public utility industries) experienced only 33 percent as much earnings growth. Finally, the more than one in nine relegated to "secondary sector" industries (nondurable manufacturing, retail trade, and personal services) experienced an absolute 26 percent earnings loss. For them, annual earnings in nominal terms fell from an average of $6,054 to $4,468. After controlling for inflation, these workers earned in 1972 only 59 percent of their 1967 aircraft wages.

TABLE 5-6

EARNINGS TRAJECTORIES OF THOSE DISPLACED FROM THE NEW ENGLAND AIRCRAFT INDUSTRY (1967–1972)

Industry of New Employment	Number of Workers	Percent of Total	Earnings Growth(1967–1972) as % of Earnings Growth of Continuously Employed New England Aircraft Workers
In Aircraft, Outside Region	600	3.3%	78%
Other "Primary Sector" Ind.[a]	11,900	65.0%	33%
"Secondary Sector" Ind.[b]	2,100	11.5%	Absolute 28% Earnings Loss
Not Covered by Social Sec.[c]	3,700	20.2%	--
Total	18,300	100.0%	--

SOURCE: Special tabulations of Social Security LEED File prepared by Alan Matthews and Barry Bluestone, Social Welfare Research Institute, Boston College, September 1979.

[a] "Primary" Industries include most durable manufacturing, wholesale trade, public utilities, and some services.

[b] "Secondary" Industries include most nondurable manufacturing, retail trade, and lower-skill requirement, higher-turnover personal services.

[c] Not covered by Social Security includes those who were no longer in the labor force in 1972 or worked in jobs not covered by Social Security.

Further analysis of the LEED file suggests that "downward mobility" into the secondary sector is not at all uncommon. This can be seen by following the job mobility patterns of the 833,200 workers in New England whose principal activity in 1958 was to work in traditional mill-based industry (e.g., apparel, textiles, shoes). In the period after 1958, 674,000 left the mills. Of this number, only 18,000, or less than 3 percent, were able to locate jobs in the growing high-technology sector in the region by 1975. (Another 2,000 had migrated to high-tech jobs in other states.) But more than *five times* as many (106,000) ended up in service and retail trade industries, almost all of which paid significantly lower wages (Bluestone and Harrison 1982).

The general decline in earnings following dislocation is to a great extent a function of the relative earnings levels in the growing and declining industries. Although there has been substantial recent employment growth in a few higher-wage industries (e.g., nonelectrical machinery and aircraft and parts), many of the most rapidly growing industries are in the lower-paying manufacturing and nonmanufacturing sectors. Employment in the electronic components industry rose by 75.9 percent between 1960 and 1972 and then by another 25.6 percent between 1973 and 1980. But the average production worker, working for $6.05 per hour in 1980, earned a weekly salary only 61 percent as high as that of an average employee in the primary metals industry. In essence, 163 electronic components jobs must be generated to compensate for the wage bill loss of 100 steelworkers. Similarly, it takes *two* department store jobs or *three* restaurant jobs to make up for the earnings loss of just one average manufacturing position.

Sector-specific deindustrialization can, therefore, seriously erode the size of the real wage bill even when aggregate employment in manufacturing remains constant. Over the next decade, the national unemployment rate may fall as more jobs in the service and trade sectors are created. But the decline in unemployment may not do very much for standards of living, as many of the new jobs pay significantly less than those that are disappearing. We are entering an era in which, for those in the old industrial middle, downward "skidding" rather than traditional upward mobility may become the norm. And for new entrants to the labor force, those who do not have advanced skills may be relegated permanently to the lower mode of the distribution. The middle will simply not be there for them.

MODIFYING THE DEMAND SIDE OF THE MARKET

To combat deindustrialization and economic dualism, the government, both at the federal and state level, will need to intervene more directly in the private market. Three types of policies are required: (1) an expansionary fiscal and monetary policy, (2) an industrial policy that includes various forms of short-run "protectionism," and (3) a restructuring of the lower mode of the labor market.

Expansionary macropolicy is a *sine qua non* for full employment and for saving what is left of the economy's industrial middle. By best estimates, if a 10 percent unemployment rate exists; 4 percent is normal frictional unemployment; another 3 percent is structural; the remaining 3 percent is caused by deficient demand. Macropolicy can at most cure this last part. High interest rates choke off sales in interest-sensitive industries, such as auto and housing construction, and retard investment in all sectors. Interest rates in real terms must be brought down to historical levels (approximately 3 to 4 percent) in order to provide sustained economic growth. This may best be accomplished by having the Federal government return to a policy of targeting interest rates rather than focusing on the size of an elusively defined money supply.

Fiscal policy is also important. Contrary to the belief that large (even $200 billion) deficits are bad for the economy, the old-fashioned Keynesian medicine of running deficits during recessions still works. Much of the current recovery is precisely because the Reagan administration is fundamentally Keynesian—if not in word, certainly in deed. The combination of enormous tax cuts and bloated defense spending has been responsible for the consumer-led spurt in growth. (Supply-side nostrums about how corporate tax cuts can produce an investment boom have not proven to be accurate.) Cutting domestic spending or boosting personal taxes at this time would be unwise, but transferring federal dollars from capital-intensive military procurement to more labor-intensive civilian spending would prime the economic pump even more.

Macropolicy is not sufficient, however. Given the dramatic restructuring of the economy, specific industrial policies aimed at maintaining a healthy portion of the traditional mill-based and smokestack industries are needed. In retrospect, the extraordinary public assistance granted the Chrysler Corporation suggests that targeted government loans, loan guarantees, and procurement may be used successfully to reenergize "dying" industries. The key is to choose those firms that are most likely to use such targeted assistance wisely and to impose strict quid pro quos in return for such aid. Changes in management practices, restrictions on "nonproductive" investments, and in some cases concessions from labor are proper demands for the government to make in return for public support.

The one serious shortcoming with the Chrysler loan guarantee (as well as with the special provisions granted Lockheed and New York City) is that it was rendered on an ad hoc emergency basis. Some form of national industrial policy agency is needed to decide in a regular and rational way where assistance could best be directed. An agency, in connection with a federal economic development bank, should be created for this purpose. In addition, plant closing legislation should be enacted requiring firms to provide workers and communities with advance notice of plant shutdowns and to grant modest readjustment assistance. With prenotification, individual states could then establish "industrial extension services" (patterned after the U.S. Agricultural Extension Service) to provide technical assistance to company managers, workers, and community officials when notice of an imminent closing has been given. The industrial extension service would be equipped with competent staff and consultants to offer advice on production techniques, labor-management relations, capital resources, and on how to reduce red tape in order to maintain the facility in question. Alternatively, in the many cases where the plant cannot be saved, the extension service would assist the workers and the community in locating other employers to fill the void.

As a normal part of industrial policy, the government must also review its trade policies. Short-run trade restriction is necessary in some cases to protect American firms from export surges or to recover competitive advantage. Trade restriction should be imposed sparingly and should contain sunset provisions, but it should not be automatically discarded as a potential tool in the overall industrial policy mix.

Restructuring the low end of the labor market is also important. In its early days, before the industrial union movement and Depression-era labor legislation, the current mill-based and smokestack industries were also characterized by bimodal job distributions. Well-organizd industrial unions such as the United Auto Workers, the United Steelworkers, the International Association of Machinists, and the various electrical workers' unions, were able to use collective bargaining to improve wages and working conditions dramatically and to narrow wage differentials. In turn, these efforts forced management to introduce efficiency measures that ultimately boosted productivity and made those wages and working conditions affordable.

Retail trade and services, as well as the high-tech manufacturing sector, are weakly unionized. Unionization of these industries could provide the basis for creating a new "middle" for the economy. Unionized supermarket employees are well on their way to such status already. Unions should stress the development of internal labor markets and job ladders in these sectors, so that workers who choose these industries could look forward to promotion, and to better-paying and more responsible jobs within the sector. Restructuring the job distribution within these industries would be the best method to eliminate the tendency toward extreme dualism in the economy.

MODIFYING THE SUPPLY SIDE OF THE MARKET

Sole reliance on the demand side of the market is by no means sufficient. Improving conditions at the low end of the dual economy will take several generations, and even then meaningful retraining and reeducation of the labor force will be absolutely required. Thus, to ameliorate structural unemployment, reorganizing the job distribution *and* retraining the labor force must be pursued simultaneously.

An entirely new approach to education, training, and retraining is imperative. It took nearly four generations, between 1900 and 1980, for the proportion of the labor force devoted to agriculture to decline from 38 percent to only a tenth of that, 3.8 percent. As a result, much of the reduction in farm employment was accomplished through attrition. In general, the sons and daughters of farmers—not the farmers themselves—migrated to the metropolis for jobs in the newly expanding manufacturing sector.

Today, however, and even more so in the future, industrial transformation will occur at higher velocity. The entire "product cycle" in some high-technology industries takes less than ten years to complete. That is, from the time a new product is developed to the point where it is phased out or its production transferred abroad may take no more than a decade. The workers displaced from these jobs will not retire, like the early twentieth-century farmers, but will require retraining for new industries and new products. The workers of the future will likely have two, three, or more occupations during their lifetimes.

To accommodate this trend, education and training must take on the dimension of lifelong learning. Periodically throughout their lives, workers will need to return to school for both general and specific training. Adult education programs will have to be expanded dramatically. The type of training will have to change as well. "Process" skills—basic language and math skills—will be important because they provide students with the flexibility necessary to enter various occupations. French and Fortran, calculus and logic, and advanced speaking and writing skills need to be emphasized.

As for vocational education, the public sector must play a greater role. Some years ago, the state of Connecticut was training five hairdressers for every machinist. Did this allocation of resources reflect demand conditions? Hardly. It reflected the fact that a commercial electric hairdryer cost the state $250, whereas a new, computerized, numerically controlled cutting lathe capable of machining titanium ran about $250,000. The state simply refused to allocate the resources to train a sufficient number of machinists.

This perhaps would have been acceptable if the private sector was willing to do the training. But with machinist apprenticeship programs requiring four years to complete, at an annual estimated cost in excess of $12,000, as well as the ever-present danger of labor pirating by other firms, none but the largest companies are willing to offer sufficient training. Consequently, ever since the large group of World War II government-trained machinists retired in the early 1970s, a chronic shortage of skilled aircraft workers has existed. This can only be remedied by relatively large-scale public expenditures on training. The private sector is gearing up to offer advanced degrees (Wang, for example, has created a college campus that offers master's degrees in computer engineering), but the shortage is too great for the modest programs developed to date by private enterprise to overcome.

To develop adequate education and training in the "information age" requires the development of new financing mechanisms. Indeed, some of these will be in the private sector. As part of the current contract agreement between Ford Motor Company and the UAW, the company has agreed to set aside funds to provide retraining for workers who face displacement. The union and the company jointly administer these training programs. This type of experiment should be studied closely to see whether it provides a useful model.

The federal government must also find new sources of revenue for an expanded education and training effort. Expanded revenue sharing with the states, perhaps by diverting U.S. Department of Defense (DOD) dollars to the U.S. Department of Education (ED), is one avenue. Another is to develop a totally new financing mechanism that makes the government an "equity investor" in human capital. Under such a plan, individuals would be eligible during their lifetimes for goverment equity investments in themselves of up to, say, $25,000. This investment, which may take the form of an education/training voucher and cash allowance for living expenses, could be used for enrollment in any state-accredited vocational or higher education program. Based on the amount of capital invested and the age of the individual receiving the investment, recipients would pay dividends back to the government for the rest of their lives through a surcharge on the regular federal income tax. The size of the surtax would be related to the amount of the government equity investment and the age of the recipients. Such a system of equity investments could be made fully self-financing or could involve a net subsidy to either individuals or the government.

In either case, unlike normal loans, the amount repaid to the government would be based on the future incomes of the recipients. Those who obtain high-paying jobs as a (partial) result of these equity investments would end up paying more dividends back to the government than those who would end up in lower-paying jobs. (Such a scheme may end up subsidizing a few poets and painters, much to our society's advantage.)

The important point is that this equity investment program should be available to workers during their entire lives. They should be able to turn to it as the need for retraining and further education becomes necessary. Other ideas like this should be pursued if we are to afford the training and education necessary for restructuring the labor force to meet the challenge of a restructured labor market.

CONCLUSION

The economy is already well along its way toward a restructuring that is characterized by deindustrialization of the old manufacturing base and dualism in the evolving jobs distribution. These two phenomena are the cause of serious social problems, including high levels of unemployment, downward occupational mobility, and a significant increase in earnings inequality. In fact, the trends threaten the entire social structure of our society, with the so-called middle America at greatest risk.

Reliance on the private sector alone can only exacerbate this tendency. The government must, therefore, play a greater role in investment decisions, take on the task of industrial planning (at least at the margin), attempt to regulate the speed of the disinvestment process in the traditional manufacturing sectors of the economy, and create new mechanisms of financing and delivering educational and training programs to all of its citizens. It is encumbent that experiments along these lines be warmly encouraged.

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6

RICHARD B. MCKENZIE

Displaced Workers: A Role for the Federal Government?

This chapter discusses the economics of federally funded retraining programs, not for the hardcore unemployed, traditionally the object of federal aid, but mainly for the hard working, reasonably paid Americans who find themselves in what are thought to be declining industries, for example, steel and automobiles. The views expressed generally stand in sharp contrast to those of Bluestone. The assignment of contrasting his views is a formidable one. Having been with him in debate on other occasions, I am fully aware of Professor Bluestone's skills.

This chapter argues against further federal government intrusion into the retraining process of workers—not to argue, as some may think, against all government intervention in the marketplace, not to contend that no retraining problem exists when millions of people are obviously unemployed, not to suggest that the collective will and the public purpose be damned in face of hardship. Contrary to what may be thought, Bluestone and I agree at a fundamental level. We both recognize a social problem, and we are equally concerned about people who have to suffer through recessions and industrial transformation, especially when the suffering is the purposeful product of public policy.

Whenever I oppose this or that government program, offered in the name of good sense and good intentions, my more difficult task is not that of marshalling arguments, but rather that of handling people's inclination to prejudge. To assume that I (and others who share my policy perspective) have callous intentions, that I care little about people's welfare, that my views may be little more than paid political pronouncements of the conservative wealthy, and that I do not seek remedies for hardship is all nonsense. Nothing could be further from the truth, if for no other reason than my roots in the rural South have made me painfully cognizant of one uncontestable proposition: social problems abound.

Where Professor Bluestone and I generally disagree is over solution. Being long on emotion and short on appreciation for the needs and consequences of markets in a free society, Professor Bluestone believes that social justice can be pursued directly through the passage of enabling legislation and the spending of more federal dollars. As a general proposition, I argue that such a policy course will most likely achieve its contradiction, more injustice and social mischief than relief.

In making this argument, I do not intend to become mired in statistics of how widespread the problem of displaced workers is. Much of this forum has been and will be devoted to an exploration of the dimensions of the problem. For the most part, this chapter sidesteps the statistical issue mainly because the debate, at its core, is not over numbers. We, in all probability, would have been asked to present opposing points of view even if the problem of displaced workers were half what it is or if federal funding of retraining programs were doubled or quadrupled. Rather, the debate is over the assignment of responsibility for relief of social ills, the needs of a free society, and the escalating tendency of people to seek public as opposed to private relief for observed social ills. I am inclined to believe—and I will argue the point—that our debate is, regardless of what the numbers show, philosophical, concerned with the broader issue of how much government, in the aggregate, can be expected to accomplish in relieving a broad range of social ills, including unemployment.

In other words, I suspect that if the problem of displaced workers were the only issue on the social agenda, there is, in my opinion, little doubt what we would do: we would willingly throw money at retraining programs, for we would have a lot of dollars to throw around. The problem of displaced workers, however, does not stand alone. The social agenda is, indeed, very crowded with competing claims on the limited capacity of any government to extract revenue by coercive measures from the citizenry's income. Any argument for government action that does not recognize the competing claims on government and the limited coercive capacity of government to do good is hardly worthy of sober reflection. However, interest groups continue to meet all over Washington and to describe in some detail the social distress caused by the failure of the federal government to spend more money. By narrowly focusing their attention, they fail to see that recognition of a social ill is not all that is necessary to lay claim to federal government revenue. The case for federal action must ultimately be made in the context of competing claims, and interest groups must ultimately show that their claims on government revenue are more worthy than the claims of others.

TEMPERING THE EXPANSION OF FEDERAL AID

For four major reasons, the enthusiasm for expanding federal aid to displaced workers should be tempered. First, many, but by no means all, backers of expanded aid seem to harbor the notion that the workers are the object and the beneficiaries of the aid, whereas in fact much of the aid will be pocketed by the firms who do not then have to cover the costs of training and retraining their own workers. Indeed, much of industry support for federal retraining programs is founded upon the strictly business proposition that their lobbying for training programs is profitable—that is, more profitable than alternative productive activities. They understand that if more federal monies are passed to the states and communities across this country for retraining programs, the result will be enhanced competition among states and communities for industries through government defraying of the industries' training costs. They recognize that the more federal money there is to be allocated, the greater the competition among governments to subsidize industries, and the greater the proportion of the subsidies intended for workers that will be passed through to their firms.

It is grossly naive for us to assume that the politicians, who are dependent upon industries for campaign funds and votes, are as deeply concerned about the fate of their workers as they may profess. It is equally naive to assume that the effectiveness of expanded aid programs can be judged by the effectiveness of previous programs. This is because the limited funding of past programs has restricted the competition among governments for industries and limited the effective subsidies channeled to firms through the competition for firms among competing governments.

Second, proponents of federal programs appear to believe that federal expenditures on retraining will result in an *increase* in the stock of retrained workers equal to the number of people who are retrained. Even if the retraining programs were perfectly effective in retraining workers (and, for purposes of argument here, there is no reason to assume otherwise), nothing could be further from the truth. Many of the workers who are retrained under the auspices of a government program would have been retrained by their firms, at their firms' expense, or would have retrained themselves, at their own expense.

However, many proponents fail to comprehend the two-edged sword of government expenditure policies. They appear oblivious to the negative effects of government taxes and deficits that are used to finance the expenditures. It is known all too well from experience that greater government taxes destroy jobs just as surely as expenditures create them, meaning that the expenditures targeted for retraining workers in identified sectors of the economy also create a need. Taxes destroy jobs, even while they provide more retraining of other workers in other sectors.

For years, economists have focused their professional attention on the extent to which federal deficits "crowd out" private investors from the bond markets. We should learn a simple point from the research: efforts to pay for federal programs, such as retraining displaced workers by way of federal deficits, will create a need for the retraining of workers in those industries that are crowded out of the bond market through government credit demands. We should also recognize that jobs have recently been destroyed indirectly by the impact of federal deficits on international money markets. Those deficits, now projected to be in the range of $200 billion for the next several years, are contributing to abnormally high real interest rates in the United States, which in turn are attracting capital from abroad, driving up the international value of the dollar, and reducing the international competitiveness of many basic industries. Additional deficits to fund expansive new government training programs will, through greater pressure on international exchange rates, destroy and jeopardize more jobs and exacerbate our retraining needs.

In the context of the total federal government budget, retraining expenditures may continue to amount to the proverbial "drop in the bucket." I worry, however, about casting off the problem in that way because the route to the $200 billion deficits has been paved by such arguments made by virtually all interest groups. Such arguments assume also that the political process can be extended to include additional aid for retraining and, at the same time, can be closed off to supporters of so many other programs who can, with equal justification, lobby for increased expenditures on their programs. In other words, additional aid for retraining will give rise to additional expenditures on a host of other programs and to an explosion of future federal deficits, if not taxes.

In other forums, I have argued that before we accept the idea that proposed industrial policies will advance social welfare, we must require proponents of reform to support their policy recommendations with "economic impact statements," which would do three things: (1) provide estimates of the jobs saved and/or created in identified industries by the policy change; (2) provide estimates of the jobs destroyed and/or jeopardized in identified industries; and (3) provide compelling reasons why the jobs of the workers in the identified "losing industries" should be destroyed and/or jeopardized for the benefit of other workers. To make the public debate open, honest, and truly democratic requires that such an impact statement accompany retraining proposals.

Third, proponents of retraining the displaced workers argue that commonly accepted ethics and sense of social priorities dictate that more federal funds be allocated to retraining displaced workers in manufacturing sectors—automobiles and steel, for example—where jobs are supposedly being destroyed by the advance of technology, growing competitiveness in world markets, and the economy's presumed transformation from manufacturing to service industries. This is worrisome because many of the workers in such industries have for years had above average wages and fringe benefits. In fact, the wages of many of these workers have been inflated in part by the growing risk that their jobs would be eliminated. By covering the retraining cost of these workers with federal funds, the general public would be paying double for retraining, once through higher prices for the products they produced and again through higher taxes. I do not share the ethics of those who contend that workers who have earned far less over the years and workers who have covered their own retraining needs should now be asked to help pay for the retraining of higher-paid workers, especially when a portion of the payment will go into the coffers of the firms that employ them.

Federal retraining assistance will have perverse effects on the incentives workers have to remain alert to their continuing employment prospects with their current skills, to remain abreast of the many opportunities for self-improvement, and not to allow their skills to depreciate. The worker's incentive will instead be to maintain and negotiate noncompetitive wages with the knowledge that when their firms are forced out of business, they can fall back on government-subsidized retraining. Such federal subsidies can give rise to worker displacement. On the margin, the subsidies induce workers to take greater risks in raising their wages and to shift to riskier employment. Greater risks imply more frequent failures—more worker displacement. Similarly, additional federal subsidies for retraining will, on the margin, temper employers' interest in keeping their workers' skills current. After all, the responsibility and cost of retraining workers are shifted to taxpayers.

Fourth, much is said of how markets presumably "fail" in the area of worker training. Labor markets fail because of the "externalities" to education. That is to say, proponents contend that people other than the employer and employee benefit from retraining, and these benefits are not captured by the pricing system. I admit that few human activities are totally devoid of "externalities." By the same token, because the type of education that is the subject of this chapter is designed largely, if not exclusively, to produce jobs and income for workers, the presumed "market failure" justification for retraining program can be questioned. After all, the National Commission on Employment Policy tells that "[e]mployment and training programs are intended to raise the earnings of those who participate" (Saks and Smith 1981, p. 12). The technological barriers that prevent, to any significant extent, the benefits of the retraining programs from being captured through the pricing system by either employees or employers are not obvious, and such technological barriers must be present to make the externality case for retraining programs.

Even if externalities are shown to exist, federally financed retraining has not been fully justified. The externalities must be sufficient to justify the cost of having government do something about them. Negative as well as positive externalities exist. Some people are harmed by the retraining of others; indeed, many people do not like, for purely personal reasons, to see others retrained, that is, the beneficiaries of welfare. This is not to suggest that people should not be helped by government because of the personal objections of people to relief. Rather, this points out that consistency in raising the externality issue (which is a question of efficiency, not equity) implies that the people harmed by the retraining of others should be compensated for the harm they bear. And such compensation, if paid, would greatly increase the cost of retraining. As detailed elsewhere (McKenzie 1981), collectivization of a service like retraining does not necessarily imply more retraining than would be provided privately—that is, if everyone's likes and dislikes are counted. Proponents of federal retraining programs do not wish to give everyone's likes and dislikes equal treatment in their conceptual framework, which, to the extent that is the case, the argument reduces to a set of assertions, not logically deduced conclusions.

THE MINIMAL NATURE OF THE EXTERNALITY ARGUMENT

The whole of the externality argument suggests that there are definite limits to the amount of government involvement in the educational process. For all we know, the present level of federal funding may have surpassed the funding requirements to achieve the elusive goal of economic efficiency.

In addition, it should be stressed that those making the externality argument should realize that the argument for additional federal retraining programs can be self-defeating. Programs can contribute to market inefficiency through the negative externalities that the retraining programs themselves create. In other words, because of the subsidies and the incentive effects, federal retraining programs can create "externalities" of their own. By failing to retrain themselves, workers can impose a heavier tax burden on the rest of the tax-paying population. From the perspective of market failure economics, therefore, no one can guarantee that social efficiency will be enhanced by retraining programs. Again, from the externality perspective, economic efficiency may be worsened.

The case for reliance on markets in establishing the retraining needs of our country is, indeed, a case for minimizing externalities. By holding workers and firms responsible for their own retraining needs, we impose the costs on those who benefit from the retraining. As responsibility for keeping worker skills current is transferred from the worker to the community, then to the state, and finally to the federal government, the potential for externalizing the costs of retraining is expanded; that is, we tend to increase the extent to which government intervention itself gives rise to a form of "social pollution" (or an externality problem). From this perspective, the externality argument for federal retraining is largely self-defeating.

The concept of "externality" has been greatly expanded over the last two decades. Proponents of retraining programs, as well as many other programs, contend that if retraining is not provided for unemployed workers, the unemployed will be forced onto the welfare rolls. In the words of the National Commission on Employment Policy, "The policy-relevant question is the long-term cost effectiveness of this approach [meaning a particular retraining program] versus a program of income redistribution" (Cecchetti, Saks, and Warren 1981, p. 31). Hence, so the argument goes, retraining reduces the externality of taxes collected to pay for welfare expenditures. The argument has an appealing ring and is not altogether an easy one to answer, especially in the absence of empirical work. It should be understood, however, that such an argument is not based on some presumed "market failure." Indeed, if there is a "failure" to be contemplated, it is a "failure" in government policy and admission of the tremendous disincentive effects of welfare.

Additionally, there are several other reasons to be unimpressed by the argument. First, it implies that the cost of social welfare programs is substantially greater than one might think by looking at the funds that are spent exclusively on welfare. The total cost should include expenditures on retraining and a host of other programs designed to prevent people from making use of welfare. Including in the welfare budget the cost of all the programs that could be funded by the federal government just to prevent welfare expenditures could make welfare prohibitively expensive. If the argument is taken seriously, such an expanded calculation of welfare costs should, perhaps, encourage a reevaluation of the appropriate level of welfare. Furthermore, those who use this revised externality argument are not willing to generalize it. One could just as easily argue that poor people's bedroom activities have an impact on the population of welfare recipients. Would anyone be willing to argue that the only policy-relevant question is the long-term cost-effectiveness of government control of people's sexual activity versus a program of income redistribution. If it could be shown that abortions are cheaper than welfare payments, would anyone be willing to argue seriously that government ought to get into the business of mandating abortion on the grounds that the only relevant policy question is the cost-effectiveness of the measure? Simply posing such questions, and generalizing the externality argument that is tendered, is not to be interpreted as advocating the extension of government powers. It simply stresses the obvious, that more than cost-benefit questions come into play over the issue of retraining.

Second, the assumption behind the argument is that any additional federal expenditure on retraining will be a net addition to the total welfare budget, whereas in fact a part of the expenditure may come from the welfare budget, implying in some cases a transfer from lower-income people who would have received the welfare benefits to the higher-income people who receive the retraining benefits.

Third, any additional expenditure on retraining will imply greater taxes and deficits and the destruction of some people's jobs, meaning a greater welfare problem for others.

Finally, the acceptance of this externality argument obliterates limits on government intervention in the economy, because a whole host of other programs, from child care to medical care, can be justified on similar grounds and expanded without limit. Nobody concerned about the welfare of future generations should feel comfortable with any government that is not delimited.

When are we going to learn that expansive, uncorked government can be the problem in hot pursuit of its own solution? For myself, I am quite comfortable with a welfare state, one that can help the less fortunate among us, but I am for such a state only if it is *limited* in its authority to help. Accordingly, a constitutional amendment that will tie in percentage terms government spending—more specifically, welfare spending—to the national income level is to be supported. Such a proposal has two beneficial effects. It gives policymakers an incentive to formulate government policies that expand the nation's income. The more efficient government policies are, the greater the revenue political leaders will have to provide for programs that benefit their constituencies. Second, the limitations on government spending will require competing welfare claimants, or their representatives, to press their case for aid in terms of the *relative*, not absolute, merits of their plight.

CONCLUSION

In summary, the arguments that there are net social benefits to expanded federal government efforts to retrain displaced workers in targeted industries like steel and automobile are unconvincing. The efficiency of such a proposal is worrisome because it appears that the market is tolerably well equipped to handle the nation's retraining needs. Wages can adjust upward to reflect the retraining costs incurred by workers. To say that retraining costs are "high" is not to say the market cannot adjust, especially when the nonpoor workers are the object of the retraining programs. If there exists a need for government action, the action should be taken by local governments, not the federal government—that is, by those governments that are closest to the problem and that can, thereby, most rationally choose the appropriate level of retraining.

The ethics of many of the current proposals are also to be doubted. They appear to be another political scam designed to use the fate of the unfortunate poor (who will probably not benefit to any great degree from the programs) for the purpose of generating sufficient political support for a program that will effectively transfer income, through the guise of the educational system, from lower-income to higher-income workers—from many workers who have kept their wages competitive to workers who have not.

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Descriptions of Operating Programs

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JUDY M. MILLER

Job Assistance Network: A Dislocated Worker Demonstration Project

BACKGROUND

The Mid-Willamette Jobs Council was the CETA prime sponsor serving Marion, Polk, and Yamhill Counties for the past eight years. The 1982-83 budget amounted to approximately $5 million and provided employment and training services to over twenty-five hundred individuals. The Jobs Council currently has a staff of approximately forty-five and is funded by the U.S. Department of Labor. It has been designated as the local administrative agent for funding under the new Job Training Partnership Act (JTPA). A staff of twelve individuals had been hired to implement and operate the dislocated worker project described herein.

In 1982-1983, Chemeketa Community College had an annual budget of $19 million, a full-time instructional staff of 190, and served sixty-five hundred full-time equivalent students. In addition to its main campus in Salem, the college operates four outreach centers. Forty percent of its funding is obtained through local property taxes, with elections held yearly. Twenty-seven percent of the funds come through state reimbursement and 16 to 18 percent from tuition. Remaining funds are from federal vocational grants and contracts.

In June of 1982, Chemeketa Community College proposed the establishment of a center to help some of the area's jobless people find employment. The college envisioned a cooperative endeavor of the college, business, and government to assist the unemployed in their search for jobs, to aid those who were interested in starting a business of their own, and to help existing businesses expand and hire additional persons. The proposal received the endorsements of the Salem Economic Development Corporation (SEDCOR), the Salem Economic Development Commission, and the Salem City Council, which also agreed to fund one position. Because the new organization represented a common effort of college, local government, and private sector volunteers, it was named the "Cooperative" Career and Economic Development Center.

That September, the Mid-Willamette Jobs Council was notified that it would receive a grant of $568,000 from the U.S. Department of Labor for a demonstration project to assist "dislocated workers" (i.e., those who have lost their jobs as a result of permanent plant cutbacks or closures). Under the terms of the grant, the Jobs Council program would draw its clients from specific firms that had permanently laid off large numbers of employees and that would agree to participate in the program.

Although the origin of funding and the source of clients were different, both center and council programs involved substantially the same type of activity. The council and Chemeketa Community College, therefore, agreed to merge their efforts into one center to provide better service to the unemployed.

The Mid-Willamette Jobs Council's displaced workers project was one of only six demonstration projects in the nation funded through the U.S. Department of Labor to assist laid-off workers. The project, the Job Assistance Network, targeted businesses in Marion, Polk, and Yamhill Counties that had laid off large numbers of employees in the last year. These three counties, with a population of approximately three hundred thousand, constitute the second-largest labor market in Oregon. Over the twelve months prior to the start of the project, this area's unemployment rate had frequently exceeded 11 percent. Massive layoffs and cutbacks at local pulp and paper mills and other manufacturing businesses created a large group of dislocated workers in this area.

The Job Assistance Network (JAN), working in coordination with Chemeketa Community College, offered a variety of services to these workers. Initially, workers were given an orientation to project services, which included gathering the individuals' work history and assessing their vocational skills and interests. Individual interviews, which involved more data collection, completed the enrollment process. Clients were referred to an in-depth Job Search Workshop, during which job-seeking skills (such as resume writing and interviewing) were covered. About two-thirds of these clients went directly to job placement assistance. The remaining third entered classroom training activities. The program sequence is summarized in a later section.

Eight hundred and ninety letters of invitation resulted in 305 enrollments, for a take-up rate of 34 percent. Nearly all of the enrollments in the program came from the following specific plants:

- Boise Cascade, Salem Plant; pulp and paper
- Boise Cascade, Independence/Monmouth Plant; veneer plywood
- Boise Cascade, Camp Adair Plant (tri-county residents); veneer plywood
- A-Dec, Newberg; dental equipment
- Buddy Mobile Homes, Mt. Angel; mobile home fabrication
- Guerdon, Stayton; mobile home fabrication
- Truss T, Woodburn; prefabricated metal building and components
- Gould Batteries (GNB), West Salem; storage batteries
- Moore Business Forms, Salem; manifold business forms
- Climax Manufacturing, Newberg; machine tools
- Sowa and Sons, Inc., Woodburn; well drilling equipment

PROGRAM SEQUENCE

Intake/Assessment

The project's intake/assessment specialists conducted a group orientation on the purpose of the Job Assistance Network and provided an overview of each program component. After the brief orientation, participants had a question-and-answer period, then completed the work history form. Participants were given instructions for the California Occupational Preference Survey (COPS) interest inventory and completed it during the session. Before leaving, clients were given an appointment time for taking the Dailey Vocational Test and for their individual intake interviews.

During the intake interview, information was gathered on personal data and past work history to better assess the client's needs and interests. Participants were enrolled in the program following intake. All participants were scheduled for the Job Search Workshop and made an appointment to access the automated Career Information System (CIS).

Job Search Workshop

Participants were assigned to a Job Search Workshop, which lasted for five days (four hours per day). The purpose of this workshop was to develop the ability to sell work skills through—

- understanding interests, aptitudes, skills, and values as they relate to work;
- developing a good basic resume;
- developing a cover letter;
- developing a job search plan of action that included use of networking, resources, and the hidden job market;
- getting a foot in the door;
- practicing interviews; and
- identifying interview follow-up activities.

Upon completion of the workshop, participants had a resume, a list of their personal transferable skills, and a knowledge of good interviewing techniques. Participants were scheduled for an appointment with a resource coordinator to discuss classroom training and/or referral to the Job Resource Center.

Classroom Training

Approximately one-third of the clients were targeted to participate in short-term training programs. Chemeketa Community College developed these programs and hired the staff to implement them. Three major group training projects were offered in the areas of electronic technology, computer operations, and computer-assisted drafting. They are described in detail in a later section. These three training programs are the focus of the data discussed in this chapter.

Additional classroom training programs included two short (thirty-two classroom hours) programs offered at the plant site. Their purpose was to update specific skills. The programs were Computerized Numerical Control/Direct Numerical Control Machine Operation for machinists, and Heavy Alloy Section Welding/Burning for welders. Twenty-two persons were enrolled in these programs. The project also provided tuition for students to enroll in one or more classes (e.g., typing) to enhance existing skills or to enroll in adult basic education or general education development (ABE/GED) programs. Only fourteen individuals took advantage of this opportunity.

Job Resource Center

A job resource area was developed in the college's counseling center for use by project participants. The center had a free long-distance phone bank; up-to-date newspapers and magazines; city, state, and county job listings; employment service job listings on microfilm; career information; motivational videotapes and films; a guide to Oregon manufacturers; and a library of job search materials that participants could check out. The resource area was staffed to provide the following services:

- Help with additional information on resumes or job applications
- Practice interviewing via use of videotapes
- Assistance with procedures for telephoning employers
- Researching of job opportunities
- Contacting of employers for interviews

- Assistance with the computerized job bank matchings
- Supportive services (e.g., tools, work clothing, special certification, licensing/insurance/bonding, up to $300; local transportation assistance, up to $100; out-of-area travel assistance, up to $500; and relocation expenses, up to $500)*

Marketing Activities

The goal of marketing activities was to place participants in new jobs. The marketing specialists contacted employers and businesses throughout the Mid-Willamette Valley to explain the program and to inform employers of the benefits of the free referral service. In addition, the marketing specialists' functions included the following:

- Bringing new information to Job Search Workshops and the Job Resource Center on what skills and attitudes employers look for in the people they hire
- Working with resource coordinators and staff to evaluate and screen program participants for referral to job openings and/or short-term training
- Arranging for referral of participants to employers for interviews
- Following up with employers after a referral has been interviewed or hired
- Working with employers to determine their staff needs and to assist in setting up training programs to meet those needs
- Speaking to groups of employers to encourage them to work with the Job Assistance Network to fill their staff vacancies
- Arranging advertising and promotional activities for the program

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*Supportive services were provided only in instances where they were directly related to the participant's ability to enroll in or continue in an activity, or to begin or continue to work.

A computerized job bank was developed and maintained by the marketing staff and was used for matching participants to job openings and for targeting marketing efforts.

IDENTIFYING TRAINING PROGRAMS

Following notification of fund availability and following the decision to develop a cooperative project, college staff began working to identify potential training areas. Chemeketa Community College has a research and development unit whose responsibility it is to participate in both short- and long-range planning.* This department coordinates closely with the Oregon Occupational Information Coordinating Committee, the Oregon State Department of Education, and other agencies and groups providing labor market information. The college drew together a committee of instructional, student services, and administrative staff to assist in identifying potential training areas.

Several areas were identified as having good potential for placement of program completers. The committee then investigated the possible modification of curricula, the availability of instructors, and the availability of facilities and equipment on campus. Through coordination with department heads, three training areas were selected. The areas identified for training were in electronic technology computer operations, and computer-assisted drafting.

Electronic Technology

Electronic Technology was a seven-month intensive training program designed to provide entry-level skills into the field of electronics. Training was self-paced, utilizing Heath Kit modules and practical training in the electronics lab. The class was staffed by a full-time instructor and a teaching assistant, who covered all the curriculum areas. Classes met for approximately thirty hours per week. Class sizes ranged from seventeen to twenty-six students.

Of the three group training projects, Electronic Technology was the only one that was noncredit. Students wishing to enroll in the second-year program had to demonstrate their subject matter competency through a series of tests. Coursework and estimated contact hours were as follows:

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*The college routinely conducts ongoing needs assessments involving business, industry, and economic development groups in the community and has forty-three active advisory committees representing all instructional programs.

AC Electronics	27
DC Electronics	36
Soldering	4
Printed Circuits	36
Semiconductors	54
Circuits	108
Test Instruments	108
Electronic Communications	36
Digital Techniques	72
CMOS	54
Microprocessors	72
Basic Programming	72
Microprocessor-Interface	126
TOTAL	805 Hours

Of significant importance was the identification of program outcomes for participants. The following range of career and job opportunities was potentially available to participants who completed the training: technicians in research and development, manufacturing, field service, education or industrial maintenance, sales and service, quality control, and management.

Computer Operations

This four-and-a-half-month training program was designed to provide students with a general background in clerical technology and in the operations of large and small computers and word processors. Individualized class schedules were developed by an instructor/coordinator. Class sizes ranged from twenty-one to twenty-nine students. Completers were awarded forty-two to forty-six credits (Accounting II was optional). The classes and credit hours were as follows:

Business Math	3	Intro. Calculus	2
Business English	3	Business Machines	3
Business Writing	3	Typing I	3
Intro to Data Processing	3	Typing II	3
Accounting I	4	Word Processing	3
Computer Operations	5	Microcomputers	4
Transcription	3	Accounting II (optional)	4

Program outcomes for students included opportunities in the following career areas: secretary, administrative assistant, office manager, data entry, computer operator in a computer center, purchasing, travel agent, receptionist, bookkeeper, sales, and inventory control.

Computer-assisted Drafting

Computer-assisted Drafting was a four-month training program utilizing computers and other technological equipment to create the documentation for drafting projects. The class was staffed by a full-time instructor and a teaching assistant. Classes met for approximately twenty-four hours per week. Class sizes ranged from eleven to fifteen students. Two additional students were in the classes but were not in the dislocated worker program. Data are not available on these two students.

Twenty-three credits were awarded to completers. The class schedule and credit hours were as follows:

- April 4 - May 13

Typing	1
Intro to Algebra & Geometry	3
Graphics	3

- May 16 - June 24

Computer-aided Graphics	2
Advanced Computer Drafting I	3
Drafting for Electronics	3

- June 27 - August 12

Advanced Computer Drafting II	3
CAD Pipe Systems	2
Drafting/Mechanical Design (Elective w/computer application)	3

Program outcomes for students included opportunities in the following career areas: metalworking, electronic drafting, civil drafting, architectural drafting, and cartography.

TRAINEE SELECTION

Within the network structure, the intake/assessment service unit was responsible for conducting orientations and completing assessment of displaced workers interested in participating in the program. The main objectives were as follows:

- To provide participants with a full explanation of services available to them

- To provide one-on-one counseling to collect past work history, personal data, and vocational information

- To assess interest, goals, skills, and abilities

The assessment batteries completed by participants included the Dailey Vocational Test (technical and scholastic), the college placement battery, the California Occupational Preference Survey (COPS, Interest Inventory), and the Career Information System (CIS). Participants were encouraged to define a realistic career goal and to develop a plan of action. The assessment batteries served as a guide for selecting participants for training programs.

Interests

There is a positive correlation between people's interests, the things they like to do, and job satisfaction. During orientation, all network enrollees completed the California Occupational Preference Survey (COPS) Interest Inventory and were asked to identify two or three high-interest areas from fourteen occupational clusters. The general interest categories were professional and skilled science, professional and skilled technology, consumer economics, outdoor, professional and skilled business, clerical, administration, professional and skilled arts, and professional and skilled service. Participants were asked to define the degree of interest or disinterest they had in the various occupational activities reflected in 168 statements.

Once individuals defined the kinds of work they liked to do, the next step was to look at possible work options. The Career Information System (CIS) is a computer-assisted activity designed to help individuals discover possible occupations that are compatible with their personal preference and abilities. The Quest portion of CIS is composed of twenty-one questions that relate to participants' interests, abilities, and other career preferences. Items covered by Quest pertain to the nature of work, abilities, education and training, working conditions, and work location. The program sorts through several hundred occupations. This information system is ideal for career planning. It is designed to be used with a CIS User's Handbook and with reference books of occupational and educational information. During individual appointments with the intake specialist, each participant completed the self-administered CIS activity in forty minutes and discussed two or three career areas.

Aptitudes and Abilities

The initial 250 enrollees completed the Dailey Vocational Test. This test contains 150 multiple-choice questions measuring knowledge and abilities, and can be administered in sixty-five minutes. Minimal time is needed by staff to score and interpret test results. The questions are designed to predict both training and occupational success in skilled trades and technical occupations.

There are seven subscores for electricity, electronics, mechanical, sciences, arithmetic, algebra, and vocabulary, and composite scores for electrical and mechanical ability and scholastic aptitude. In the context of the Job Assistance Network, the test served as a tool to select potential candidates for short-term training programs in high-technology fields (i.e., electronic technology, computer operations, and computer-assisted drafting). A percentile score of 75 percent or above was indicative of sufficient aptitude.

Enrollees expressing an interest in any of the short-term training programs were referred to the college counseling center to take the Chemeketa Placement Battery. All students enrolled at Chemeketa Community College and who take over six credit hours are required to take the college placement battery. The testing consists of three parts: a thirty-minute reading test, a forty-minute English test, a ten-minute spelling test, and a sixty-minute math test. The battery is administered and scored by the counseling service on a group testing basis.

Screening Committee

A screening committee was established for each of the three training programs. Committee membership consisted of the network project coordinator, a network resource coordinator, the instructor for the program, and the director of the Cooperative Career and Economic Development Center. The purpose of the committee was to review assessment data and interview information in order to select appropriate applicants for training. Test scores were used in combination with interview information.

Due to the short-term nature of training, it was necessary to establish entry-level criteria, as there was little time for remedial work. The guidelines shown in table 7-1 were established to assist in identifying appropriate applicants for the three training programs. Factors such as the individual's ability to support himself or herself financially were also considered in making the final selection. Applicants who were interested but had low scores were given an opportunity to present additional information to the committee.

Table 7-1

ENTRY-LEVEL CRITERIA FOR CLASSROOM TRAINING

	Course		
Selection Guidelines	**Electronic Technology**	**Computer Objectives**	**CAD/CAM**
Interests			
COPS %ile	Technical skills=75 or	Business skills=75 or	Technical skills=75 and Art skills=75 or
CIS/Interview	Identified related area as high-interest	Identified related area as high-interest	Identified related area as high-interest
Aptitudes and Abilities			
Daily Vocational Test %ile	Electrical=75 and/or	N/A	Mechanical=75 and/or
Work History	6 months related electronic experience	6 months related office experience and	6 months related experience in drafting or with blueprints and
Other	N/A	Type 25 wpm	Type 15 wpm
College Placement			
Reading Grade Level	8.0+	8.0+	8.0+
Math (raw score)			
Red	5 +	N/A	N/A
Green	18 +	9 +	9 +

TRAINING RESULTS

Summary

In reviewing data on participants who entered training versus all program participants, there are four areas in which the participant characteristics differed notably. Although only 18.9 percent of the total population was female, 29.2 percent of the trainees were females. Persons forty-five years of age and older were not equitably represented in training programs, with 22.3 percent over fifty-four in the program and only 13.9 percent in training. Surprisingly, more than twice as many single parents were in training as were in the total program. Nearly all trainees were unemployment compensation recipients, as compared to only 79.5 percent in the total program.

In looking at participant data on training dropouts, several areas raise concerns. The percentage of dropouts over the age of forty-five was higher. Of the training dropouts, 66.7 percent were economically disadvantaged, whereas only 41.5 percent of the originally enrolled trainees were in this category. Of the dropouts, 33.3 percent were single parents, compared to only 20 percent of the total trainee group. Only 1.7 percent of the dropouts were individuals living on their own. Although the sample size is fairly limited, financial status and family size may have some bearing on the program dropout rate.

As of 30 September 1983, 60 percent of all program enrollees had been placed in jobs. The average wage at placement was $7.32 per hour. The preproject average wage had been $10.62 per hour. Although the wage at placement was only 69 percent of the preproject wage, it was considered satisfactory in view of the high unemployment rate in the area and the relative lack of union and other high-paying blue-collar jobs. It was also considerably higher than the wage at placement of those individuals served under the CETA Title VII program operated previously by the Jobs Council. For those individuals, the average wage at placement was $4.50 per hour. This difference may be at least partially attributed to the differing employment backgrounds of the two groups.

With training completion so close to the end of the project, it is difficult to assess the effectiveness of training as measured by increased placements, the relation of training to placement, and the wage at placement of training completers. Of the individuals enrolled in the three major training projects, 46 percent had been placed as of 30 September. Their average wage at placement was $7.42 per hour. This was an average of $0.10 per hour more than those who did not go through training. It would be necessary to do a follow-up evaluation to determine the long-term effects of training on wages and on long-term employability. For those individuals who enrolled in miscellaneous training programs (such as the welder and CNC machinist training), a 56 percent placement rate was achieved. Again, most of the training programs were completed shortly before the end of the project, so it is difficult to draw any conclusions from this information without doing a follow-up study.

Training Programs: Completers versus Noncompleters

Table 7-2 gives detailed participant data for the total program and shows participant data for individuals who entered the three basic training programs, as well as for those who dropped out of the three basic training programs.

Age

Age may be a factor for training program completion. Data on ages of program completers versus noncompleters are reflected in table 7-3.

It should be noted that the average age of full-time students at Chemeketa Community College is approximately twenty-six years old. The average age of students in the three training programs was almost thirty-five.

Average Assessment Scores of Completers versus Noncompleters

As shown in table 7-4, the average reading grade-level of students in the three programs was 10.6. The average reading grade-level for full-time college students entering Chemeketa Community College is 9.8. Although no statistical computations were made using the data in table 7-4, a cursory examination of the table indicates that no pattern emerges to distinguish completers from noncompleters.

Table 7-2

CHARACTERISTICS OF ALL DISABLED WORKER PROGRAM PARTICIPANTS, CLASSROOM-TRAINING PARTICIPANTS, AND TRAINING DROPOUTS

Characteristics		All Participants	All Participants in Classroom Training	Training Dropouts[a]
TOTAL NUMBER		305	70	20
SEX	Male	81.1%	70.8%	75.0%
	Female	18.9	29.2	25.0
AGE	16-21	1.8%	1.5%	– –
	22-44	75.2	84.6	75.0%
	45-54	17.2	10.8	16.7
	55 and over	5.1	3.1	8.3
EDUCATION . .	School dropout	13.9%	6.1%	– –
	H/S grad/equivalent, no post-HS	57.0	58.5	50.0%
	Post-HS attended	29.1	35.4	50.0
PUBLIC ASSIST-ANCE STATUS . .	Receiving AFDC or SSI	2.0%	3.0%	– –
ECONOMIC STATUS	Economically Disadvantaged	45.7%	41.5%	66.7%
FAMILY STATUS . . .	Single Parent	9.3%	20.0%	33.3%
	Parent in 2-parent family	59.9	47.7	25.0
	Other family member	19.9	23.0	25.0
	Nondependent individual	10.9	9.3	16.7
RACE/ ETHNIC	White (Not Hispanic)	90.1%	95.4%	100.0%
	Minority	9.9	4.6	– –
VETERAN STATUS . . .	Veteran, total	33.1%	23.0%	33.3%
	Vietnam Era	18.9	15.4	16.7
HANDICAPPED		3.6%	– –	– –
OFFENDER		2.7%	4.6%	– –
UNEMPLOYMENT COMPENSATION CLAIMANT		79.5%	96.9%	100%

[a] Estimated percentages, all data not available.

Table 7-3

DESCRIPTIVE STATISTICS ON THE AGE OF CLASSROOM TRAINING COMPLETERS AND NONCOMPLETERS

Statistic	Completers (n = 50)	Noncompleters (n=20)
Range	19-52	25-59
Mean	32.5	39.5
Median	32	37
Mode	28	37

Completion Rates

Test scores on the Dailey Vocational Test and college placement battery and level of interest as expressed on the COPS interest inventory do not appear to correlate with the individuals' ability to complete training. Rather, factors that are more subjective and difficult to predict or measure come into play. Of the seventy individuals enrolled in the three major training programs, twenty dropped out, giving an average completion rate of 71.4 percent. Of the twenty dropouts, six left within the first month, two within the second month, five within the third month, six within the fourth month, and one within the fifth month. Reasons for dropping out (see table 7-5) were obtained through a review of the file and a discussion with the resource coordinator and the instructor.

IMPLICATIONS FOR TRAINING IN DISPLACED WORKER PROGRAMS

Identification of Training Programs

Over 60 percent of the participants enrolled in the program expressed an initial interest in training. A wider variety of training options would undoubtedly have resulted in more trainees. Of particular interest were miniprograms or single-course training, two to six weeks in length, which would enhance existing skills. The two-week

Table 7-4

MEAN ASSESSMENT SCORES OF CLASSROOM TRAINING COMPLETERS AND NONCOMPLETERS, BY TYPE OF COURSE

Test	Course					
	Electronic Technology		Computer Operations		CAD/CAM	
	Completers	Noncompleters	Completers	Noncompleters	Completers	Noncompleters
Interests COPS						
Business skilled %ile	–	–	57.0	67.9	–	–
Clerical skilled %ile	–	–	71.6	81.0	–	–
Technical skilled %ile	63.0	76.0	–	–	68.8	88.1
Art skilled %ile	–	–	–	–	87.5	61.0
Aptitude and Ability						
Daily Vocational Test						
Electrical %ile	78	66	60	56	75	70
Mechanical %ile	73	60	36	42	60	79
Scholastic %ile	56	45	48	37	58	65
Reading Grade Level	10.6	10.7	10.8	10.4	10.6	10.1
Math (raw scores)						
Red	10.4	14.2	15.1	–	12.0	–
Green	20.5	14.6	18.6	16.3	20.4	21.3
Spelling (raw scores)	11	11	12	10	12	14
English (raw scores)	19	20	21	18	19	19

Table 7-5

PERCENTAGE COMPLETING CLASSROOM TRAINING AND REASONS GIVEN FOR DROPPING OUT, BY TYPE OF COURSE

	Course			Total
	Electronic Technology	Computer Operations	CAD/CAM	
Enrollment	26	29	15	70
Completers (Percentage)	18 (69.2%)	21 (72.4%)	11 (73.3%)	50 (71.4%)
Reasons given for not completing				
Left to take job	4	3	4	11
Left to start own business	0	1	0	1
Family pressure	2	0	0	2
Health	0	2	0	2
Academic (e.g., studying too hard, etc.)	2	1	0	3

CNC/DNC program for machinists and Heavy Alloy Welding program for welders are examples of this type of training. Close attention to specific industry standards and new technological adaptations can make this a valid means of improving employability.

Of primary importance is the identification of training programs that will result in placement of completers at a wage rate that does not substantially diminish their living standard. Former union workers will not work for $4.00 per hour—at least not while full unemployment benefits are available to them. Employment opportunities that result from training should be available in the local labor market. Few participants indicated the ability or willingness to relocate. At this time, less than 10 percent of all participants placed had left the area to obtain employment. Half of those relocated within the state. Home ownership, family ties, and spouse employment prevented many from considering relocation as an option.

A follow-up system is necessary if evaluation is to provide feedback for program continuation, direction, and improvement. An active advisory committee that will conduct regular program audits of curricula, equipment, and quality of instructors, coupled with feedback from graduates and their employers, is essential in order to identify training needs and meet labor market demands.

Selection of Instructors

A key element to the success of the program was the selection of the instructors. For two of the programs, the instructors were regular staff members; only one instructor was hired from outside the college. The philosophy of the college involved making a commitment to short-term training and releasing regular staff without threatening their positions and tenure. In Oregon, most community college staff are unionized, so it was necessary to formalize contracts. This was not easy, because training programs did not follow the same time schedule as college terms, nor did they observe the same break and holiday periods. The scheduling of facilities and equipment, ordering of books and supplies, acceptance by other instructional staff, and conflict resolution seemed best facilitated by regular staff. Classes ran more smoothly, with fewer complaints from students and all other college personnel, when the instructor was a regular long-term staff member who had both knowledge of the system and credibility with other faculty and staff.

Instructors who took a personal interest in the students, made use of outside resources, and were flexible (yet provided structure through scheduling) had the most success. All instructors were involved in the screening and selection of students, and this process was very valuable in helping them understand the background of the students. Instructors were then able to adjust their curriculum and teaching methods to meet student needs better. Instructors who took a personal interest in their students and were flexible in their approach had the most success. In cases where students attended a variety of classes taught by different instructors, the program was facilitated by an instructor/coordinator.

Facilities and Equipment

Labs in data processing and electronics were initially overloaded for the regular one- and two-year programs. During the previous spring term, space was so limited that the college had to turn away students. Students were served on a first-come, first-serve basis. Department heads and regular instructional staff were resentful of the fact that short-term training students would further crowd the facilities. In the computer operations program, scheduling of lab space was an ongoing problem, and evenings and weekends were used as lab times. The dedication of facilities and equipment for the short-term program was facilitated because of the college president's commitment to short-term training. As all three programs crossed over into the summer months, lab time became less of a problem.

Registration, Accounting, and Record Keeping

The registrar's office did not have systems in place for enrolling students in classes that did not fit the quarter system. The business office had no system in place for billing tuition that did not fit the quarter system. The bookstore had a confusing variety of ways in which to order and bill for books and supplies. Short-term training programs did not follow standard college terms. This fact raised a number of problems, such as how to register students and how to bill the project for tuition, books, and supplies for students. There was a lag in getting students registered and on the computer, which caused problems for three of the students who had applied for financial aid and were not allowed to receive their financial aid package until they were formally registered. Several meetings of college and Job Assistance Network staff were needed to develop a process that worked for all parties involved. A written process will be prepared prior to the end of the project to facilitate future ventures.

Training costs for the three major training programs were difficult to estimate. The college originally indicated a total cost estimate of $195,439 for the three programs. This estimate included costs of personnel, materials and services, and new capital equipment. Tuition costs of $180 per term and all student books and supply costs were covered by the Job Assistance Network. Estimated revenues from these sources was $40,000, only about 20 percent of the total program estimate. Future training programs should have standard planning guidelines to ensure more accurate budget estimates.

Participant Backgrounds and Abilities

In comparing network participants to participants served under regular Jobs Council programs (i.e., CETA programs), the following differences are noteworthy:

- Network participants, on the average, were older and were predominantly male
- Only half as many network participants were school dropouts (13.9 percent compared to 25.8 percent)
- Only 2.0 percent of the network participants were on public assistance compared to 20.8 percent of those in the regular Jobs Council programs
- Fewer network participants lived independently (10.9 percent), compared to the Jobs Council participants (43.2 percent)
- Twice as many network participants were veterans (33.1 percent compared to 15.8 percent)
- Only a third as many network participants were listed as handicapped or offenders (6.3 percent compared to 22.1 percent)
- Five times as many (79.5 percent) were unemployment compensation claimants for the network participants compared to the Jobs Council programs' participants (16.3 percent)

Experience during orientation and assessment revealed that less than 5 percent of the participants experienced difficulty reading the tests and inventories administered as part of the assessment. Of the participants, 86.1 percent were at least high school graduates. Individuals who entered the three training programs had an average reading grade-level of 10.6, nearly one grade-level higher than the 9.8 grade-level average of students entering two-year programs at the college. This was also considerably higher than the suggested minimum reading grade level of 8.0 for college vocational courses. Of the twenty students who dropped out of training, only three indicated they were leaving for academic reasons. Although our sample size is fairly limited, a need for basic education skills was not evident in this group.

Other

Close coordination with agencies that collect occupational information and employment statistics must be achieved in order to ensure that training programs meet the wage and location needs of dislocated workers. Considerable coordination with local state employment agencies is needed to ensure early identification of dislocated workers and to facilitate their continuation of unemployment insurance benefits while in training. Cooperation is also needed to obtain necessary information on benefit amounts during training, if these dollars are to be used as part of the JTPA-required nonfederal match. It is also essential to have a good understanding of community resources that are available for individuals who need financial counseling, child care, health services, and other types of assistance.

Both college staff and project staff felt the project was providing a valuable service to dislocated workers. During the initial stages of the program, many systems had to be developed to manage the cooperative arrangement that existed with the college. Communication among network and college staff was especially critical during the early stages of planning and implementing the classroom training program. To identify and to resolve communication issues, the college president organized a management team, composed of Jobs Council and college managers, who met weekly to keep the project on target. This planning and operational team proved invaluable.

Network staff provided services to students and community members that eased the work load of other departments. Instructors discovered that they had a special group of committed and skilled students and that they themselves had a unique opportunity to be challenged. In developing compressed curricula and in working with just one group of students, individual needs could be addressed, curricula adjusted, and new teaching styles tried.

Individuals in the program were solid citizens in the community, active in community organizations, and well informed, with a variety of hobbies and interests. They would participate in a program only as long as they felt it was fair, honest, and provided a meaningful service. They needed to be treated with respect, kept informed, and placed in jobs that met their skills, interests, and financial needs. They were our best advocates, recruited other participants, developed good publicity, and gave us honest feedback on how well we were doing our jobs.

Training programs must be evaluated in terms of their effectiveness in returning people to work. Training-related placements, pre- and posttraining wage comparisons, cost-effectiveness, and credibility with employers and with trainees are key factors.

Training people to accept change, to look forward to it, to plan for it financially and emotionally, and to adapt to changes in life-style and work environment is a responsibility that educational institutions must continue to address. Training should be considered as an integral part of everyone's career.

8

CAROL ELIASON

The Dislocated Worker: A New Challenge for Two-Year Colleges

Community colleges are rapidly responding to the White House challenge to form partnerships between the public and private sectors to provide employment training. The nation's 1,219 community, junior, and technical colleges represent an in-place delivery system for retraining massive numbers of the American work force. Recognizing the central role that community colleges can play in retraining American workers, a task force of the American Association of Community and Junior Colleges (AACJC 1982) issued a concept paper entitled *Putting America Back to Work*. In it, a proposal outlined a "moon-shot" commitment to foster job training relevant to economic development.

The resulting Putting America Back to Work project has two major goals:

- To promote national strategies and policies aimed at more effective human resource development as an integral part of overall economic development strategies.
- To foster effective local business-education-government-labor alliances, tying together economic and human resource development planning and implementation activities

Supporting these goals, project leaders are crisscrossing our nation in 1983, meeting with private and public sector leaders at national, state, and local levels. The purpose is to pinpoint ways by which partnerships involving two-year colleges can achieve significant economic development gains through skills training and retraining. This chapter reviews the context in which these partnerships operate and examines the primary approaches that two-year postsecondary institutions are taking.

THE CONTEXT

The Putting America Back to Work project has been launched in the midst of both a short-term economic crisis and a more fundamental economic and political transition. In economic and human terms, the current crisis is very real. Nearly 10 percent of the work force is unemployed. State and local governments are being battered as citizens expect reduced tax revenues to cope with extraordinary demands for welfare and social services.

The decline of heavy manufacturing (largely in the Northeast and Midwest) and the growth of high-technology industries and the service sector (largely in the Sun Belt) are changing the economic map of the nation. Many metropolitan areas whose industries fueled the tremendous industrial growth of the nation prior to World War II and whose economic and human resources remain substantial now reel from loss of population and manufacturing jobs. They desperately search for strategies to stem decline and reestablish growth. In contrast, other communities are preoccupied with the problems of meeting the demands of rapid, often unplanned growth.

If such environmental turbulence induces fear, confusion, and even paralysis, it is also an opportunity to shape new directions. Several pieces of employment and training legislation are being rewritten and provide significant opportunities to shape a more coherent national policy. The recently enacted Job Training Partnership Act (JTPA) represents an important step in the right direction, and calls for stronger business participation through private industry councils. Yet even the most casual observer of the human resource development arena in the United States is struck immediately by the following obstacles:

- The tenuous tie between economic development strategies, programs, and mechanisms at all levels of government and the human resource development programs that presumably support economic development

- The incredible hodgepodge of legislation, policies, programs, and administrative mechanisms that makes up the human resource development arena

At the federal level, training dollars have basically flowed through the Comprehensive Employment Training Act (CETA) and vocational education conduits, with little coordination between the two. At the local level, a variety of providers have delivered training with the financial support of the CETA program, which has involved at least a local planning council and private industry council. Vocational education programs are largely delivered by secondary systems but two-year postsecondary institutions provide not only mainstream vocational-technical training but also specially designed skills training through a variety of delivery modes. On the private sector side, billions of dollars are spent annually on directly delivered in-house training.

The Job Training Partnership Act, intended to replace CETA, is expected to have the following major effects:

- A distinct move away from the welfare orientation of CETA, with the elimination of stipends for trainees and the absence of a public service jobs component

- A strengthening of the role of the states in human resource development planning

- An upgrading of private sector influence in program planning and administration, primarily through a stronger private industry council

AACJC sponsored ten regional seminars in March 1983 to acquaint member institutions with JTPA's finer points. These sessions also showcased existing programs that work. Key elements of those successful programs are described later in the chapter.

Although there appears to be some confusion during the current transition from CETA to JTPA, a Job Training Partnership Act survey conducted in late July 1983 revealed that 83 percent of the community colleges responding had private industry councils (PICs) formed in their areas. Community colleges nationally already appear to have increased their PIC participation rate above that under CETA.

AACJC's (1982) report, *Putting America Back to Work*, enunciates the following five principles:

- Incentives must be designed to promote greater cooperation between private/governmental employers and existing accredited educational/training institutions for the purpose of preparing citizens for careers of regional and/or national priority.

- An administrative structure to allocate federal resources must be designed in a manner that provides greater state-level determination of resource and/or incentive allocation, and promotes interstate planning for labor market areas that transcend state boundaries.

- Incentives must be designed to encourage citizens to seek preparation to qualify for occupations of regional and/or national priority, to be mobile, and to maintain their employment.

- A national policy on employment development and training is required.

- The currently fragmented authority and accountability for the federal job training programs must be clarified and unified. It is particularly important to pinpoint responsibility.

Currently, the AACJC task force is seeking support for a major rewrite of the Vocational Education Act of 1963 to include an adult training component that will better finance long-term retraining programs for displaced workers. The next section looks at some of the relevant issues and offers insights into problem solving that affect the approaches two-year college programs for displaced workers may take.

Definition of Displaced Workers

Displaced (or dislocated) workers are persons in midcareer who, for one or more reasons, find that their employment is jeopardized or terminated due to one of the following reasons: (1) plant closing, (2) technological change, or (3) the changing structure of the economy. Workers in economically depressed areas who have been unemployed for more than twenty-six weeks are federally classified as dislocated workers. Under terms of the Job Training Partnership Act:

> Each state is authorized to establish procedures to identify substantial groups of eligible individuals who: (1) have been terminated or laid-off or who have received a notice of termination or lay-off from employment, are eligible for or have exhausted their entitlement to unemployment compensation, and are unlikely to return to their previous industry or occupation; (2) have been terminated or have received a notice of termination of employment, as a result of any permanent closures of a plant or facility; or (3) are long-term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including any older individuals who may have substantial barriers to employment by reason of age. (Section 302 [a])

What Populations Are in Danger of Becoming Displaced Workers?

Choate (1982) suggests the following about those who are most likely to become displaced workers in America:

> Specifically, the portion of the American population age 25-55—considered the highly productive core of the work force—is growing. In 1970, this segment constituted 40 percent of the work force, in 1980 it constituted 46 percent, by 1990, it will comprise over 54 percent. In the 1980s and 1990s the growth of this population cohort offers substantial potential for increasing national productivity through improved labor quality—but only if these workers can acquire the proper skills in a timely fashion. (p. 7)

How Big is the Displaced Worker Problem?

If administrators use a single criterion—only workers who are unemployed due to the continuing decline in a particular smokestack industry and who remain unemployed for more than twenty-six weeks—for determining who the displaced workers are, the numbers are relatively small, about one hundred fifty thousand. However, if multiple criteria are used, the numbers of displaced workers may reach 2.1 million. Most of the workers in the first estimate are blue-collar workers in the Midwest and Northeast. But if all unemployed workers in declining geographic areas are also classifiable as displaced, the larger projection then includes blue-collar workers, clerical workers, managers, and salespersons.

What Are the Problems Confronting Dislocated Workers When a Plant Closes?

Age discrimination. When an industrial plant closes its doors and its employees begin extended job searches, those workers who are forty-five years of age or older suffer the longest bouts of unemployment. This is a finding from Gordus et al. (1981). Their study contains a comprehensive review of plant closing research over the past twenty years. It points out that the problems of dislocated workers are overwhelmingly those of older workers, because the age of the dislocated worker is quite high, ranging from forty years at one plant to fifty-four years at another.

Age discrimination seems to be a key factor in prolonged unemployment. Many employers perceive increasing age as a signal of reduced productivity and are unwilling to hire older workers. Older workers also face the stigma of being labeled "untrainable," although other studies have repeatedly demonstrated older workers' willingness and ability to succeed in training programs. Older workers may also be perceived as a poor investment by employers because of insurance and pension costs, or the perception that they will not be in the labor force long enough to justify the costs of retraining.

Seniority losses. Seniority systems, which were originally designed to protect workers, can actually work against older workers. When plants or commercial companies begin layoffs, the younger, less-experienced workers enter the labor market first. They tend to saturate the market with their lower salary expectations before the older workers enter the labor market.

Sex and race discrimination. Older workers who are also women and/or members of minority groups face even greater problems. At least one labor market analysis has found that dislocated female workers tend to be unemployed at rates three times higher than those of men in the same job classification. Racial discrimination has also had serious consequences in the black and Hispanic communities of industrial America. Gordus et al. (1981) note that almost 40 percent of blacks at one plant were still unemployed nineteen months after closing, compared to 25 percent of white workers.

Physical and mental health problems. Access to resources to sustain physical and mental health was rated as extremely important by workers who faced prolonged periods of unemployment. For workers who finally accepted employment in jobs of less status, underemployment may be more destructive than no work at all.

Ignorance of transferable skills. Few dislocated workers are realistic about their own strengths and weaknesses. This tunnel vision of self has deep roots in both the sociodemographics and culture of their peers. Thus, any agency or institution hoping to assist displaced workers needs to be prepared to offer a comprehensive program of counseling, testing, and career exploration. The testing progam should adapt some of the strategies used in the mid-1970s to assist dislocated homemakers. It is important to build self-confidence and increase workers' awareness of contemporary strategies for overcoming educational deficiencies in math, reading, communication, and decision making.

What Are the Job Growth Fields for Retraining?

Community, junior, and technical college planners watch carefully for trend analyses by the U.S. Bureau of Labor Statistics (BLS) as they develop worker retraining programs. The Bureau of Labor Statistics projects that the following occupations will be among those that account for nearly 25 percent of all new jobs generated during the 1980s: secretaries, who will see an employment growth of 700,000 by 1990; nurse's aides and orderlies, 508,000; truck drivers, 415,000; and general clerks and office workers, 377,000. The BLS also lists the following careers among the fastest-growing occupations requiring postsecondary education but less than a bachelor's degree: paralegal personnel, data processing machine mechanics, computer operators, and office machine and cash register servicers. Thus planning must focus on providing both service and information in occupational retraining programs.

COMMUNITY COLLEGES APPROACHES

Community colleges across the United States have discovered the need for multiple approaches to providing services and retraining for displaced workers in the 1980s. These responses generally fall into the following four categories:

- Community-wide job search and counseling campaigns
- Federally funded retraining programs
- Private sector/community college projects
- Preventive maintenance training

Communitywide Job Search and Counseling Campaigns

These community projects feature multiple media campaigns that both highlight the availability of skilled talent to job clubs and stage media events that match job seekers with potential employer needs. The concept behind the job club is not new, but its application to the displaced worker of the 1980s is. The job club is based upon the need for workers to find a peer support network during periods of prolonged unemployment while resharpening job search and job-interviewing techniques. Some communities urge persons changing job fields to sustain membership in the club for ninety days after employment to ensure that they are able to survive the new environment. Reemployed members are also invited to return to the group to offer valuable insights to the unemployed members.

Federally Funded Retraining Programs

Private industry councils under both CETA and the Job Training Partnership Act include several options for community-based contracting to retrain unemployed or underemployed workers. Brevard Community College in Florida entered into such an agreement with the local private industry council to develop resources and retrain local unemployed persons who exhibited a high potential for manual dexterity. These retrained workers became precision sheet metal workers, with skills needed by area businesses and defense installations.

To understand the potential for two-year college participation in the Job Training Partnership Act, it is necessary to summarize the content of three of its key titles. They are Title II, Part A; Title III; and Title IV.

Title II, Part A—Adult and Youth Programs

A summary of Title II (Part A) includes (but is not limited to) the following activities:

- Job search assistance and counseling
- Remedial education, basic literacy skills, and bilingual training
- Institutional skill training, work experience, and on-the-job training
- Supportive services, including payments to needy individuals
- Preapprenticeship programs
- Information dissemination
- Development of job openings
- On-site industry-specific training
- Program coordination with other federal employment-related activities

In the Job Training Partnership Act survey conducted by AACJC in July 1983, the respondents were asked to describe the proposed Title II (Part A) programs they were submitting to their private industry councils. Some examples include the following:

- Community College of Beaver, Pennsylvania, reports a career services and job club center for job search skills.
- Hinds Junior College District, Mississippi, proposes an "optional learning center" where workers can be assessed on their basic skills and can learn preemployment and job interview techniques, resume writing, work habits, interpersonal communications, and so forth.
- State University of New York and the Technical College of Canton, New York, are sponsoring a Machine Operator's Program.

- Horry-Georgetown Technical College, South Carolina, with thirty-six golf courses in its service area, has a Golf Course Mechanic Program in which students learn to operate high-technology turf equipment, including hydraulics, diesel engines, and sophisticated electrical systems.

- Mission College, California, is training displaced auto workers in computer-aided design/drafting.

- Ashland Community College, Kentucky, is training 150 displaced homemakers in the areas of surgical technology, paralegal/secretarial functions, commercial sewing machine operation, biomedical equipment technology, health care, hospitality services, and GED and Civil Service exam preparation.

Title III—Employment and Training Assistance for Dislocated Workers

This separate component of the JTPA legislation is designed to provide training funds for programs that concentrate on displaced, unemployed workers. Characteristics of this program are as follows:

- At least 75 percent of the funds are to be allocated to the states according to the same formula as Title II funds.

- The U.S. Secretary of Labor may reserve 25 percent of the funds to provide training, retraining, job search assistance, placement, relocation assistance, and other aid to individuals affected by mass layoffs, natural disasters, or federal policy.

- Each state will determine procedures for expenditures of its funds and may submit requests to the U.S. Secretary of Labor for the Secretary's discretionary fund.

- The state funds must be matched by nonfederal funds. This match may include the direct cost of employment and training services under Title III or under other local and state programs, such as vocational education.

- A maximum of 30 percent of these funds may be used for supportive services, wages, allowances, stipends, and costs of administration.

Title IV—Other Federally Administered Programs

Title IV of the Job Training Partnership Act provides for federally administered programs that include the following:

- Part A—Employment and training programs for Native Americans, migrant workers, and seasonal farm workers
- Part B—Job Corps
- Part C—Veterans Employment Programs
- Part D—National programs, including multistate programs, research and development, pilot projects, evaluation, training, and technical assistance
- Part F—National Commission for Employment Policy
- Part G—Training to fulfill affirmative action obligations

The programs under Title IV will be administered by the U.S. Department of Labor. Their funding levels will be capped at 7 percent of the grants going to the states under Title II.

Current interpretations of JTPA by the U.S. Department of Labor regarding client eligibility for trainees are as follows:

- Trainees must be economically disadvantaged with family incomes at or below poverty; *or*
- Trainees must be persons receiving cash welfare payments, food stamp recipients, foster children receiving cash support, handicapped adults; *or*
- Ten percent of the trainees may be persons who do not meet income eligibility but who encounter other barriers to employment, such as limited English-speaking proficiency, dislocated homemakers, school dropouts, older workers, veterans, offenders, alcoholics, or addicts.

Although local program design under JTPA is in its infancy, some forecasting is possible. The new job training legislation has a number of requirements that will greatly change the operation of local retraining programs. The most significant change in the coming fiscal year is likely to be the elimination of allowances. Practitioners will learn to "live without allowances." Therefore, free or low-cost support services will probably be increasingly important under the new legislation. Without allowances, community colleges will need to assist low-income participants with such training-related expenses as child care, meals, transportation, medical expenses, and health care.

Without the availability of these services, many low-income persons will find it difficult to participate in the quality skills training programs being planned. Strategies for helping them participate should include both financial and nonfinancial assistance, for example, finding part-time jobs, educational grants, and public assistance, if eligible. A high priority will probably also be placed on a college's ability to place trainees in long-term private sector employment.

Under JTPA, counseling and screening are likely to be key program elements. Some tasks require special aptitudes and skills. In these cases, specific criteria and standardized tests may be needed. In other cases, motivation will be the key ingredient for success. Highly motivated trainees should see skills training as a way to become productive and self-sufficient.

The National Alliance for Business has urged states to set minimum standards for intake/asessment, screening, counseling/client support, and placement in JTPA-supported programs. Among alternative strategies being suggested by the National Alliance for Business are the following:

- Competency-based open-entry/open-exit courses
- More concise, specialized training modules
- Reduced-length training designs
- Training courses that incorporate work experience and on-the-job training in their design
- Evening and weekend sessions for working participants

Private Sector/Community College Projects

Parkland Community College of Champaign, Illinois, proposes to open a Dislocated Worker Assistance Center. Major components of the proposed center are as follows:

- To assist employers in identifying employees who need and could benefit from additional training
- To improve the performance of marginal and average employees, reviewing past performance and determining objectives for improvement and growth
- To implement internal procedures for developing individualized education and employment plans for older unemployed workers

A vital component of the center will be to serve as a clearinghouse, referral, and testing center. The center will function as an information broker for individuals, providing vocational counseling needs or social agency referral while the participant is preparing for or being placed in a job setting. Types of counseling and information will include the following:

- Prelayoff assistance or other types of job separation guidance
- Work history documentation
- Vocational assessment and testing
- Transferable skills assessment
- An individualized education chart and employability plan
- Employment search skills training
- A job market search, if the participant has marketable skills
- Identification of services available from other agencies

Center professional staff will include already employed personnel. Consideration is being given to changing roles and developing more encompassing assignments for social-service-oriented counselors, job development counselors, placement coordinators, and special population coordinators (e.g., veterans, handicapped, those eligible for the Work Incentive Program, or assistance under JTPA). Provisions for state employment service personnel to work in the center would be encouraged.

Business involvement will include the following:

- Listing current jobs with the center
- Selecting persons best suited for available jobs
- Assisting in providing entry-level positions while persons work or train as their individual career plans indicate
- Making a commitment to plan for growth of the employee as well as growth of the company
- Signing agreements for funding, training, or retraining with the center
- Providing on-the-job training, in-plant training, or cooperative-type work to the unemployed adult

Additional private sector support will include executives-on-loan, semiretired professionals, and funds for salaries contributed by business organizations, local chambers of commerce, or the United Way.

For the business community, Parkland's center will be able to aid in making personnel evaluations and in meeting equal opportunity employment mandates to private business. Conversely, the employers will be positively involved in hiring and separating staff by having the center's staff serve as the arbitrating, objective representative of the potential employees.

To date, the most ambitious model developed with private sector funding has been the Ford Motor Company/United Auto Workers (UAW) negotiated labor contract provision called the National Vocational Retraining Assistance Plan (NVRAP). Tuition assistance is an important feature of NVRAP, and is designed to help laid-off employees. For certain employees on indefinite layoff, NVRAP helps individuals pursue self-selected formal education or retraining to increase their chances for reemployment and for building future careers.

The plan was launched in August 1982 under the sponsorship of the UAW/Ford National Development and Training Center. It is located on the campus of Henry Ford Community College in Dearborn, Michigan. Employees on layoff who have participated thus far in the plan have selected a wide range of education and retraining options, but they strongly preferred two-year vocational education programs offered by local community colleges and technical institutes. These employees tended to select a full-time load of college courses, with the plan paying for about 95 percent of tuition and fees.

Employees currently participating in NVRAP have shown a strong motivation to learn. Although this cannot be quantified or measured with precision, this commitment is evident, both from the number and type of vocational courses selected by the participants and from the reasons for retraining expressed on their applications for the program.

The plan is working out well thus far. Many more applications are expected as employees on layoff become more aware of NVRAP, including those newly eligible as a result of its recent improvements and extension of coverage. The governing body encourages local unions and managers to increase their efforts to boost employee awareness and interest in the plan. Letters from retrained employees indicate that the plan does provide significant help in addressing their needs.

An analysis (Hayes 1983) also revealed the following:

- A majority of the employees selected a *public community college* and—
    - enrolled in a vocational education curriculum involving either technology (such as electronics or robotics) or a business-related area (such as data processing); and
    - sought a two-year associate's degree, not just a few courses.
- Employees enrolled in one of thirty-five community colleges, in ten states.
- More than 50 percent began studies with a relatively heavy work load. They enrolled for almost a full-time load of courses in two-year degree programs.

- Most participants' tuition and compulsory fees were paid for the first term in school, and—
  - most received NVRAP assistance for about 95 percent of such covered expenses,
  - most received little financial aid from other sources; and
  - most had certain types of expenses (such as books, tools, supplies) that are not covered under NVRAP.
- Most had over seven years of company seniority, as of the last day worked, and thus were potentially eligible for—
  - two years of assistance, and
  - a total of two thousand dollars for training at an accredited institution.
- Well over half (57 percent) chose electronics, robotics, or other technology-related curricula.
- Almost a third (32 percent) selected data processing or other business-related curricula.
- The remaining 11 percent chose allied health or other curricula.

By comparison, NVRAP payments approved for employees who selected *four-year* degree programs included the following:

- Almost a third (32 percent) enrolled in business-related curricula.
- Almost a quarter (24 percent) enrolled in engineering or natural sciences.
- The remaining 44 percent enrolled in a wide variety of other curricula.
- Employees began their college studies with rather heavy work loads—particularly noteworthy because most of them were entering college for the first time.

- Based on the number of credit hours—
    - almost half (47 percent) started out with a full-time load of courses (twelve or more credit hours), and
    - almost a quarter (24 percent) of employees enrolled for six or fewer credit hours.
- The average number of credit hours was eleven, and some employees enrolled for more than twenty credit hours.

Preventive Maintenance Training

Perhaps the most promising type of new venture is the preventive maintenance retraining program. One of the most extensive is a collaborative that involves Westinghouse Defense Systems, Inc., the International Union of Electricians, the International Brotherhood of Electrical Workers, and two Maryland community colleges (Catonsville and Anne Arundel). The program has four basic components worthy of further discussion, which are as follows:

- Union contracts provide incentives to existing employees to retrain at employer expense while continuing to work in the plant. Employees refusing to retrain know that job advancement and potential pay increases are thus limited.
- Experienced employees participating in retraining are offered a full-scale profile of their skills, aptitudes, and potential for advancement.
- Employees accepted for retraining are given assistance in basic math, reading, and communication skills.
- Applications of new technologies in the fields of microcomputers, laser manufacturing, and classified military advanced technologies are also taught to those who demonstrate competencies in the basic skills training.

Several other private sector initiatives are worthy of note. The American business community is calling on two-year college systems with increasing frequency to provide low-cost, high-quality training and retraining. Here are several notable examples:

- General Motors has contracts with about forty-five community colleges to retrain service technicians for its automobile dealers across the country in order to meet immediate skill shortages. Vice-president James G. Vorhes says the corporation expects the colleges to train about one hundred eighty thousand technicians a year.

- A consortium of telecommunications companies in the San Francisco area is developing a program to train about two hundred telecommunications technicians per year to fill jobs with local companies. More than half of the trainees are expected to be former displaced workers.

- The Rancho Santiago Community College District in California and a group of Orange County employers recently opened the Technology Exchange Center. The center will coordinate programs offered by the district's eight colleges and four occupational centers with the labor needs of local employers, who are predominantly engaged in electronics and aerospace. This initiative has given long-term unemployed workers increased options for training while seeking employment.

- Cuyahoga Community College in Cleveland, Ohio, breaks ground this year for construction of a $9 million skills center on the college's downtown campus. Backed by state money, the Cuyahoga skills center will train or retrain up to one thousand four hundred workers annually. A close working relationship between the college and Cleveland's business, industry, and government sectors will ensure that students get the high-technology training that local employers need. Due to Cleveland's high unemployment rate, displaced workers are expected to swell the ranks of trainees.

- North Carolina's fifty-eight community and technical colleges and approximately twenty companies launched a campaign for business-industry-college cooperation, which culminated when Governor James B. Hunt, Jr., designated 1981 as the "Year of the Community College System." During the special year, corporations donated more than $6 million in computer and electronic equipment for educational programs, and the governor announced that the community colleges would be "the presumptive deliverer of skills training in North Carolina." This has proven to be an incentive for older companies to explore cooperative training ventures.

An informal survey of more than a dozen job skills centers operated by community and technical colleges indicates a heightened awareness of the need to reshape existing services to serve the displaced worker population better. Many job skills centers were developed under the Manpower Development and Training Act (MDTA), continued under CETA, and will doubtless be continued under JTPA. The skills centers seek to provide comprehensive employment and training services to the full range of individuals seeking employment, with special focus on adult programs. Services may include a wide range of components, from assessment and intake to placement and follow-up. Programs are designed to provide comprehensive vocational services in one location to all individuals eligible under JTPA.

The goal of skills center programs is to assist trainees in finding and keeping training-related employment in the private sector. Services provided in skills centers are designed to be comprehensive and individualized. Key elements include the following:

- Outreach and intake services
- Information dissemination to employers and community media
- Remedial and basic education services, including—
  - literacy training
  - GED preparation
  - open-entry/open-exit skill training
  - combined vocational instruction with on-the-job training and/or internships or cooperative programs
  - innovative instructional methods using interactive, computer-assisted instruction
  - vocational instruction in preapprenticeship training
  - on-site, industry-specific training and retraining
  - training activities for individuals who require upgrading of existing vocational skills

  - occupational exploration activities that expand occupational choices

- Counseling services, including—
  - assessment, testing, and curriculum placement
  - personal and vocational counseling
  - job-holding and survival skills
  - life skills training

- Transition services, including—
  - job search assistance
  - placement services
  - follow-up

The prime goal of job skills centers is to place economically disadvantaged persons in unsubsidized employment. Other JTPA prescribed goals are as follows:

- Retention of unsubsidized employment
- Increased earnings
- Reduced welfare dependency
- Successful return on investment

One of the more successful centers, the Maricopa Skills Center in Phoenix, is an integrated component of the Maricopa Community College District. In more than a decade of training and retraining, it has focused on hard-to-place populations, such as Native Americans and recent immigrants from Mexico, Central America, and Southeast Asia. Its business, labor, and industry advisory committees have given it excellent policy direction as well as placement resources.

Customized Skill Training/Retraining

Customized skill retraining programs—another variety of preventive maintenance training—vary dramatically, depending on the needs of the industry involved in the program. These programs are designed to assist new industries moving into a state or companies instituting new technologies that will enhance productivity.

New technology applications require different instructional techniques. Trainees may be assisted by interactive computer-assisted instruction or by the development of highly specialized learning options that include audiovisual instruction or repetitive hands-on experience.

As stated earlier, careful selection of participants for customized skill training programs is an important element of program success. Increased utilization of testing and counseling is anticipated.

It is clear that community colleges are preparing to assume a major leadership role in "putting America back to work," in partnership with their local businesses and industries. The challenge will be to secure adequate support for financing new equipment to serve emerging high-technology industries in a time of shrinking state budgets.

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9

WILBURN J. PRATT

Operating Programs: Reactor Comments

The two chapters reviewed here are of very different natures. Both deal with programs at two-year colleges. However, the similarities stop there. Miller's deals with a specific project to assist displaced workers. Eliason's is more of a "handbook" for two-year colleges involved with programs to assist displaced workers.

This review is intended to identify the highlights of the preceding chapters, summarize the strong and weak points, identify—from a state policymaker's viewpoint—what is learned that may facilitate and/or assist in the administration of displaced worker programs, and identify—from a national perspective—what the chapters say about investing resources and efforts in attempts to assist displaced workers.

DEVELOPING AND IMPLEMENTING SHORT-TERM TRAINING AT COMMUNITY COLLEGES

The Job Assistance Network project reported in Miller's chapter grew out of a need to assist workers who had permanently lost their jobs in the Salem, Oregon, area. Although this job loss largely involved the pulp and paper industry, the reasons for Salem's dislocation of workers are similar to those existing all around the United States. Thus, a demonstration project of this type appears well placed.

The degree of coordination and cooperation apparently achieved among all parties working with displaced workers in the Mid-Willamette Jobs Council area is commendable. Further, the Job Assistance Network is operated in cooperation with Chemeketa Community College and offers services vital to displaced workers.

Of 890 announcements sent to displaced workers, 302 displaced workers enrolled in this program. All enrolling individuals were oriented to the program, assessed, given twenty hours of employability skills training, and counseled on further classroom training or referral to the Job Resources Center. Seventy of the displaced workers engaged in more training in electronics technology, computer operation, or computer-assisted drafting. The remaining displaced workers went to the Job Resources Center for a variety of assistance and support services that, it was hoped, would lead to immediate and gainful employment.

The remainder of the chapter reports on the identification and implementation of training programs at the community college and associated problems caused by specialized programs for the displaced workers. Finally, data dealing with basic characteristics (i.e., age, sex, marital status) of the training participants are detailed.

The chapter does more than an adequate job in describing the need for the project, the program designed to assist displaced workers with acquiring information and skills to obtain employment, and training results that were most interesting. However, it does not provide sufficient interpretation to determine the training's real value.

From a policy viewpoint, it is possible to view the project report from a state objective of facilitating and managing displaced worker programs, or from a national objective of gathering information to make decisions on investing resources and efforts to assist displaced workers. Unfortunately, the chapter stops short of providing the information and corresponding interpretation to assist policy/decision makers.

First, the chapter does not clarify what the Job Assistance Network, including both classroom training and the Job Resource Center, was intended to demonstrate or accomplish. For one trying to make decisions on assistance to displaced workers, this frame of reference would have been most helpful. Otherwise, the conclusions are that, with some contact, it is possible to get displaced workers (of the statistical description detailed) into classroom training in Chemeketa Community College, despite certain administrative problems to be overcome, and that a certain degree of success (in terms of placement) can be anticipated, as well as a certain percentage of dropouts—some for positive reasons.

A second area of concern from a policy/decision-making view is that the chapter raises a number of very interesting questions for the decision maker. Unfortunately, few of them are answered. Some examples are as follows:

- A quick calculation reveals that only 36 percent of the workers contacted responded to the invitation to participate. What does this mean in terms of the program designed for displaced workers?
- How successful was the Job Resource Center, and what have we learned from this proejct that will assist in placing displaced workers in jobs? How many of the 232 entering the center received jobs?
- Why were only seventy students targeted for classroom training?
- How did the desires of displaced workers for new skills stack up with available training options at the community college?
- How and why were some of the "in-demand" skills, such as secretarial, health occupations, general clerks, and industrial maintenance, excluded as training options?
- What have we learned about the flexibility/inflexibility of our two-year colleges in training displaced workers?

Other questions are raised. This chapter would be of significantly more value to the policy/decision maker if it dealt in detail with these questions.

THE DISPLACED WORKER: A NEW CHALLENGE FOR TWO-YEAR COLLEGES

This chapter covers seven major areas dealing with displaced workers. They are as follows:

- The American Association of Community and Junior Colleges' paper titled "Putting America Back to Work" and its efforts to provide needed training and promote policy aimed at assisting displaced workers
- Changes brought about in training programs by the Job Training Partnership Act
- Where we are, as a nation, in terms of training programs, a national policy for training, and displaced workers
- A definition of displaced workers and discussion of the magnitude of the problem
- Problems facing displaced workers (e.g., age, sex, and race discrimination; mental health problems; lack of knowledge of transferable skills, and so forth)
- Descriptions of two-year college responses to the displaced worker problem under currently available training programs, with examples of the responses
- Job growth occupations for retraining displaced workers and examples of two-year colleges working with industry and labor to retrain workers for specific jobs

The chapter serves essentially as a "handbook" for those interested in training for displaced workers. The chapter does a more than adequate job of delineating the problem, providing background information, and citing specific examples of successful training programs. Additionally, from the viewpoint of a state or national decision maker dealing with the displaced worker problem, this type of information is most helpful, particularly the examples of successful programs and efforts. These could and should be studied further by those interested in transferability to other training situations. However, there is some lack of clarity as to the author's intent for the use of the chapter.

I would cite one other criticism of this paper in view of our conference title, "Displaced Workers: Implications for Educational and Training Institutions." Although Eliason does an excellent job of delineating the displaced worker problem and providing specific training examples that could be emulated, she says little (expect by implication) about specific actions and changes a two-year college may have to deal with to provide adequate assistance to displaced workers. For example, the "how to" for achieving proper links among business, industry, labor, and government for training is not discussed, whether for providing training in new occupations or job opportunities for displaced workers.

As a state-level policymaker and administrator of training programs, I believe that it is critical to bring the implications for education and training institutions into focus regarding the displaced worker problem. Numerous implications appear in the chapters just reviewed, such as problems of inflexibility in our education and training system, the need to develop specific programs to deal with displaced workers, the need for coordination and cooperation among both the private and public sectors to provide successful assistance, and the decline in revenue available for education and training. These, however, are only symptoms of the real problem. Until we have a national policy and national commitment to a cohesive employment and training system, we will continue in a reactive mode. The greatest need for our education and training institutions is a concerted effort to bring a workable national employment and training program into reality.

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ARTHUR D. SHY

The Displaced Worker Problem and Implications for Training and Education Institutions

MAGNITUDE OF THE UNEMPLOYMENT CRISIS

During the past two years, economy-wide unemployment, particularly among industrial workers, remained at its highest level since the Great Depression of the 1930s. During the first six months of 1983, unemployment levels in the United States have exceeded 11 million American workers and over 10 percent of the total work force. Much of the early 1983 decline in joblessness did not result from gains in employment, but from a drop in the labor force itself.

The economic system of the country has not been working, and clearly the old rules are not working. In a number of our states and cities, particularly in the nation's industrial belt, unemployment is quite literally at depression levels. Even with a recovery from the 1981-1982 recession, shifts in the industrial goods market and other factors will result in substantial and persistent unemployment.

There are approximately 450 thousand autoworkers, including those in related industries represented by the United Auto Workers (UAW) union, who are unemployed. Many others have been working part-time. It is estimated by industry, government, and labor that about half of these workers will never return to their former jobs, and will be classified as displaced workers. In addition to the problem of unemployment caused by the recession, many other factors have had a permanent impact on employment in the nation's basic industries.

These other factors include new technology, robotization, the trend toward down-sizing of American automobiles, and, most importantly, the foothold of imports in the automobile market as well as in those for most other industrial goods.

Our industrial base has been dangerously eroded. In recent years, over 4 million good jobs have been destroyed in basic United States industries—steel, automobile, construction, electronics, apparel, and others. At the same time, the United States is in danger of losing its competitive edge in the high-technology industries that should be the source of new jobs and economic growth in the American economy of the future.

Over the past two years, blue-collar workers faced an average unemployment rate of over 16 percent. This included unemployment rates of over 23 percent in the automobile industry and over 50 percent in the basic steel industry. Table 10-1 illustrates what has happened to our industrial base as a result of imports in various sectors of the economy since 1960.

TABLE 10-1

IMPORT SHARE OF THE U.S. MARKET FOR SELECTED INDUSTRIAL GOODS 1960 and 1982

Product	Year	
	1960	1982
Shoes	2	60
Steel	4	23
Autos	4	28
Apparel	7.5	41
Consumer Electronics	6	95
Machine Tools	6	27

SOURCE: American Federation of Labor-Congress of Industrial Organization (AFL-CIO) 1983.

Every time a car, truck, an engine, or a transmission is imported into the United States, there are costs as well as potential benefits to society. The benefits—price and engineering, competition, and consumer choice—are generally recognized. The costs more often remain hidden, never linked explicitly to particular policies. But these costs are huge, and organized labor believes they overwhelm the benefits of unrestricted access to the world's largest auto market.

Since 1978, fully 1 million American workers have lost their jobs due to the auto crisis, nearly 300,000 in the auto companies alone. Meanwhile, the Japanese share of the market has doubled. If nothing is done, one-half of the jobs involved in making cars and trucks will be lost to this country; over one-quarter already have been lost.

The Congressional Budget Office (CBO) estimates that each percentage point of unemployment costs the federal treasury $25 billion. Because the 1 million jobs lost to the auto crisis raise the overall unemployment rate by about one full point, the CBO's figure is a fair measure of the federal revenue cost of the 1979-1982 auto slump.

But the impact on the federal budget is just the start. One must also consider state and local government losses, the cost of unused skills, of increased crime, alcoholism, illness, family breakup, and premature death. The auto-dependent Frost Belt's sad plight is sufficient testimony to the incalculable net cost.

The American auto industry in 1981 employed 784,000 people, and their suppliers gave jobs to 1.8 million more, for a total of 2.6 million American jobs directly linked to domestic new car and truck production. In 1981, some 7.9 million new vehicles were produced here, and from that we can estimate that each 1 million American-made motor vehicles means jobs for about 330,000 auto and supplier workers. In 1982, 2.2 million imported cars and trucks were sold here, and in 1983 the figure will be about 2.4 million. If nothing is done, the figure may rise to twice that many by 1986,* costing the United States another 800,000 jobs. And that does not include the indirect jobs supported by the incomes of auto-sector workers, which may push the job loss to more than one million.

Enactment of the pending domestic content law would restore nearly half of those 1 million jobs, and would halt the loss of a half million more due to increased outsourcing that would otherwise occur.

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*A 35 percent import share of a car (plus light truck) market of 13.7 million units.

Although the auto slump has hurt the whole American economy, and although its redress through a content law would benefit the entire country, there have been some particularly big losers. In several states and in over a dozen metropolitan areas, auto production constitutes the dominant goods-producing activity. Not surprisingly, these areas are suffering massive unemployment, deep fiscal crisis and social breakdown. In some of these communities (e.g., California, New Jersey, and Massachusetts, as well as Michigan, Ohio, and Indiana) the 1979-1982 auto crisis has literally halved the size of the manufacturing sector.

It is obvious that employment in many other basic industries is affected by automobile production. The impact is wide when the auto industry declines. Jobs have been lost in other industries that supply materials, products, and services needed for the production of cars and trucks. Special industry employment tables developed by the U.S. Department of Labor (1982) show how total employment is affected by slumping car and truck sales. As shown in table 10-2, for every $1 billion reduction in car and truck sales (measured in constant dollars) 15,053 workers will be laid off both in blue-collar and white-collar occupations in the motor vehicle and equipment industry.

The same $1 billion drop in sales will reverberate through many other industries. Among the manufacturing industries, the heaviest impact will come in the steel and iron industries, which would lay off 4,276 workers. Other high-impact areas in manufacturing will be tires and rubber products, 1,223 layoffs; nonferrous metals and products, 1,038; metal stamping, 1,980; industrial, metalworking, and other nonelectrical machinery, 1,890; fabric and textile products, 1,231; and general hardware, screw machine products, and other fabricated metal products, 1,894.

In the transportation industry, 2,246 workers will be laid off for every $1 billion drop in auto sales; in wholesale trade, 4,269; in finance, insurance, and real estate, 1,048; and in business and professional services, 1,792.

In all, the drop of 15,053 jobs in the motor vehicle and equipment industry resulting from a $1 billion loss of sales will have an effect on other industries that could cost an additional 35,553 jobs. In other words, for every one job lost in auto, another 2.4 jobs are lost in other industries. The total loss to the economy for every $1 billion loss in car and truck sales will be 50,606 jobs.

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The U.S. Department of Commerce (1982, 1983) reports that sales of domestic cars and trucks fell by $25.6 billion in constant dollars between 1978 and 1982, from $67.1 billion to $41.5 billion. This $25.6 billion decline implies a drop of 385,360 jobs in the auto industry's own employment since 1978, and a loss for the entire economy of 1,295,510 jobs.

The impact is even more widespread than these figures imply, when the effect on jobs created through and supported by workers' *spending* is also considered. Not reflected in the earlier figures is the job loss that results when laid-off workers are forced to cut back spending, touching off further losses in other goods- and services-producing industries.

IMPACT OF TECHNOLOGY AND ROBOTIZATION

There are, of course, a number of factors affecting the decline of employment in the automobile industry. The impact of new technology is forecast by many as a cause for the elimination of many jobs. Company managers tend to regard new technology and robots as automatic solutions to economic problems, whereas workers fear being displaced by them.

Some of the worker displacement occurs not merely because of new technology and robotization, but rather because of simple modernization. An example of the impact of both new technology and modernization is foreseen in the current construction of a new automobile assembly plant in the Detroit area. This plant, when completed, will be the first new car assembly plant built in Michigan in over fifty years. The new plant is expected to employ (at full capacity) approximately six thousand workers. It will have the capacity, however, to assemble the same number of automobiles and parts as two older plants that normally employ approximately sixteen thousand workers.

Much of the impact of robotics will depend on how fast and where the technology is implemented. Hunt and Hunt (1983) recently completed a study that forecasts the United States robot population. Table 10-3 compares that forecast with estimates of the 1981 population made by the Robot Institute of America (1983). The figures show that the robot population will increase from less than 4,200 in 1981 to the 50,000 to 100,000 range by 1990; between 25 and 30 percent of these robots will be installed in the major auto manufacturing companies' plants.

TABLE 10-2

NUMBER OF JOBS LOST PER 1 BILLION DOLLAR REDUCTION IN CAR AND TRUCK SALES, BY SECTOR

Sector	Jobs
Manufacturing	
Motor vehicles and equipment	15,053
Blast furnaces and basic steel	2,220
Iron and steel foundries	2,056
Tires and rubber products	1,223
Nonferrous metals and products	1,038
Glass	507
Plastic products	380
Metal stamping	1,980
Cutlery, hand tools, and general hardware	690
Screw machine products	550
Other fabricated metal products	654
General industrial and metalworking machinery	848
Other nonelectrical machinery	1,042
Fabric and textile products	1,231
Electrical industrial apparatus and lighting and wiring	586
Other electrical machinery and equipment	783
Utilities	425
Finance, Insurance, and Real Estate	1,048
Transportation	2,246
Trade (wholesale)	4,269
Services	
Business and professional services	1,792
Auto repair	415
Maintenance and Repair Construction	445
Other Manufacturing and Nonmanufacturing	9,125
Total	50,606

SOURCE: U.S. Department of Labor (1982)

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TABLE 10-3

U.S. ROBOT POPULATION, 1981 AND FORECAST FOR 1990

Application	Autos, 1990 Range of Estimates		All Other Manufacturing, 1990 Range of Estimates		Total, 1990 Range of Estimates		Total 1981
	Low	High	Low	High	Low	High	
Welding	3,200 (21.3%)	4,100 (16.4%)	5,500 (15.7%)	10,000 (13.3%)	8,700 (17.4%)	14,000 (14.1%)	1,500 (36%)
Assembly	4,200 (28.0%)	8,800 (35.2%)	5,000 (14.3%)	15,000 (20.0%)	9,200 (18.4%)	23,800 (23.8%)	40 (1%)
Painting	1,800 (12.0%)	2,500 (10.0%)	3,200 (9.1%)	5,500 (7.3%)	5,000 (10.0%)	8,000 (8.0%)	540 (13%)
Machine Loading & Unloading	5,000 (33.3%)	8,000 (32.0%)	17,500 (50.0%)	34,000 (46.0%)	22,500 (45.0%)	42,000 (42.0%)	1,690[a] (40%)
Other	800 (5.3%)	1,640 (6.4%)	3,800 (10.9%)	10,500 (14.0%)	4,600 (9.2%)	12,100 (12.1%)	400 (10%)
Total	15,500 (100%)	25,000 (100%)	35,000 (100%)	75,000 (100%)	50,000 (100%)	100,000 (100%)	4,170 (100%)

SOURCES: Hunt and Hunt (1983) and Robot Institute of America (1983).

[a] Combines foundry and machine loading categories

Although the 1990 range (50,000 to 100,000) appears wide, it is actually reasonable to use such a wide band because it allows for economic uncertainty. The "low" columns in table 10-3 assume a continuation of the post-1978 economic climate of high real interest rates and slow (2 percent) real GNP growth throughout the 1980s, whereas the "high" columns assume a decline in real interest rates and a return to a 1970-1978 annual real GNP growth of 3.5 percent.

Perhaps the most significant aspect of the forecast is the importance that robotic assembly will assume in the auto industry. In 1981, assembly accounted for only 2 percent of all robot applications in the General Motors Corporation (GM); by 1990, 28 to 35 percent of all robots will be in assembly, according to the forecast. The relative importance of welding applications, on the other hand, will decline: in 1990, only 16 to 21 percent of auto industry robots will do welding, compared to 1981, when GM had 68 percent of its robots in this area. This does not mean that the *number* of welding robots will decline—in fact, it will increase—but that other robot applications will increase much faster.

To put these robot numbers into perspective, they should be compared to the American labor force, which by 1990 is projected to be just over 120 million workers. Assuming an average displacement of two workers per robot, and the middle of the 50,000 to 100,000 robot population range (75,000), perhaps 150,000 workers will be displaced. This, however, is not the *net* job loss. Robotics is expected to employ about 75,000 people by 1990, which will reduce the net job loss to 75,000, which will add six one-hundredths of a percentage point to the American employment rate. In the auto industry, 20,000 additional robots may displace 40,000 workers, or nearly 6 percent of the 1982 American auto work force.

A note of caution is in order here. Robots are only a small part of the total automation picture. Flexible automation combines numerically controlled machine tools and robots with automatic storage and retrieval systems. Each of these increases productivity by itself, but the effect is magnified when these systems are interconnected, as is increasingly the trend. Thus, labor displacement calculations based on robots alone may seriously underestimate the probable labor-saving effect of flexible automation as a whole.

WHO ARE THE DISPLACED WORKERS?

Adding the discouraged workers and involuntary part-timers puts the current number unemployed or underemployed at 17.9 million—15.8 percent of the country's potential civilian labor force. Despite the millions of unemployed workers in our potential work force, and, despite the growing numbers of workers who are becoming totally displaced or underemployed, their actual numbers are hard to determine. So little attention has been paid to economic dislocation in this country that no one knows the exact number of workers unemployed or underemployed as a result of plant closings or indefinite layoffs.

The obstacles to retraining displaced workers include the nation's inability to count them accurately and, in some cases, to find them. A Congressional Budget Office study (1982) put the number anywhere from 100,000 to 2 million, depending partly on how they are defined.

We are therefore concerned by a number of studies that appear to minimize the problem—studies that adopt narrow, restrictive definitions of displacement. It is imperative that a good statistical effort be made to measure the full extent of the displaced worker problem. Among the federal statistical agencies that could undertake such a project, the Bureau of Labor Statistics is best suited because of its technical knowledge of and extensive experience with labor market data collection and analysis.

As for criteria to use in defining displaced workers, the most obvious one is unemployment. Displaced workers are workers who have lost their jobs due to structural changes in the economy, such as increased imports, technological change, or industrial restructuring, and who are not likely to regain their previous jobs. These are workers who have been laid off due to a plant closing. They also include workers who have been laid off with no recall date (which often means that they are unlikely to return to their previous jobs). Moreoever, there are long-term unemployed who face limited opportunity for reemployment in the same industry or in a similar occupation.

Although joblessness is the most obvious criterion for classification as a displaced worker, it is not the only one. There are workers who, after suffering displacement, manage to find work in another industry or occupation. More often than not, these workers find jobs that pay far less than did their previous jobs, and are far less secure. It has been estimated that the loss of earnings in the first five years following displacement for a worker in the basic manufacturing industries is about twice the average annual predisplacement earnings. Any measurement of the extent of displacement must include those workers who have only been able to secure reemployment at a substantially lower pay level, who are working fewer hours than they would like, or who have been forced into unstable, dead-end jobs. Much of this can be attributed to the workers' lack of adequate skills and nonavailability of comprehensive training programs.

In addition, there are displaced workers who have dropped out of the labor market because of poor job prospects. This includes not only the "discouraged unemployed," but also the involuntary early retirees. There are numerous cases where, for instance, a long-time worker opts for retirement because of the near impossibility of obtaining new employment, even though he or she wants to work and would have stayed on the job if it had not been eliminated. Often health status is a factor in such cases: the displaced long-time worker may have been able to perform his or her job perfectly well, but when the job is lost, that person may be forced into premature disability retirement due to marginal health status. Such workers also must be identified and counted.

In conjunction with determining the number of displaced workers, information also should be collected on the characteristics of the displaced unemployed and underemployed. This should include such information as age, education, sex, race, health status, and broad geographical location. Information on the causes for displacement is an essential ingredient to an understanding of the problem. Therefore, organized labor urges that an effort be made to trace the reason for the dislocation, whether to technological change, international trade developments, product phaseout, shifts in markets, and so forth.

TRAINING PROGRAMS NEGOTIATED THROUGH COLLECTIVE BARGAINING

The United Automobile Workers (UAW) has initiated many programs in its collective bargaining structure that will assist workers in getting needed education and training, including programs for both active and laid-off workers. In negotiations within the auto industry, there is a commitment by the auto companies to spend over $100 million a year for this purpose. In addition to the automobile industry, there are similar programs in the agricultural implement industry and in the aerospace industry (such as those negotiated with International Harvester and Rockwell International). There are numerous other programs underway. However, this education and training can only become meaningful when there are decent jobs available for everyone seeking work. Full employment is a fundamental need, and we need a national commitment to achieve this goal.

The need today is to analyze the job needs for the future, and to begin the task of necessary job training and retraining of workers to meet those job demands. Labor has acted to do something about the need for job retraining for its members, as the impact of high technology has adversely affected the job opportunities and security of its workers. Unions have been experiencing warnings about computerization, robotics, and new/high technology since the 1950s and 1960s. Union contracts with auto, aerospace, agricultural implement, and hundreds of independent parts and supplier plants with whom the UAW bargains include provisions for absorption, job realignment, and wage and seniority provisions for thousands of new jobs and job processes brought about by automation and high technology.

More recently, in response to the massive layoffs among union members, the UAW negotiated both protective job language and job training and retraining language for its members.

UAW-General Motors Joint Skill Development and Training Program

The 1982 UAW-GM agreement addresses the problem of retraining both displaced and present workers by providing for the establishment of a Joint Skill Development and Training Committee. Some of the major responsibilities of the Joint Skill Development and Training Committee will be as follows:

- Arrange for or provide "training, retraining, and development assistance for employees displaced by new technologies, new production techniques, and shifts in customer product preference." It could also undertake similar efforts for "employees displaced as a result of facility closings, or discontinuance of operations."

- As an initial priority, "to review skilled trades employees' training in new technology, including robotics."

- To develop and provide "training to enhance skills for present and anticipated job responsibilities and to meet new technology."

The new Joint Skill Development and Training Program will be directed by equal numbers of representatives of the union and the corporation.

Over $40 million a year has been earmarked for helping laid-off GM workers get back into the work force, through retraining for new careers or job search assistance and counseling. The funding grew out of 1982 labor negotiations with the United Auto Workers and, in California, is significantly aided by existing state and federal funds and staff. The UAW-GM program has concentrated on Los Angeles and the San Francisco Bay Area because of plant closings at South Gate and Fremont, California, although projects are now being initiated in Flint, Michigan, and other locations.

GM's retraining program illustrates the somewhat limited impact even the best-designed, fully funded projects may have. Taken together, the General Motors plant closures in Fremont and South Gate in March 1982 constitute the largest single-employer closure in California, affecting over eight thousand workers and hundreds more from feeder industries. Most of the workers were long-term, well-paid employees with nontransferable skills and no place to go. They suffered all the financial and emotional problems described in journals and articles written about the plant closure phenomenon.

Before the two plants finally closed, there were periodic layoffs; some layoffs lasted as long as two years. This history of layoffs convinced both workers and potential new employers that there was a chance that the plants would reopen, causing the workers to hold out for that day and employers not to hire. This negative atmosphere and the sluggish labor market have prolonged reemployment of the workers.

In November 1981, a Displaced Worker Center was established in Fremont. Later, in March 1982, a center was established in South Gate. Both centers were designed to provide extraordinary services for laid-off GM workers. They have served as a focal point for mobilizing state and community resources and support for the reemployment project.

In April 1982, a historic collective bargaining agreement became effective, forming the General Motors-United Auto Workers Joint Skill Development and Training Committee, whose purpose is to promote training, retraining, and related activities to upgrade the skills of GM autoworkers nationwide and to assist workers affected by closures. After negotiation of this agreement, state and local officials and the Joint Committee met and developed a service and training plan.

In November 1982, individual contracts outlining specific services to be provided were entered into by the GM-UAW Joint Skill Development and Training Committee and the following state agencies:

- California Employment Development Department
- California Department of Transportation
- California Department of Mental Health and Department of Apprenticeship Standards
- California Department of Education
- Board of Governors of the California Community Colleges
- Rancho Santiago Community College District
- California State Office of Employment and Training

Under these agreements, a comprehensive project was established to address the needs of the workers within the context of labor market demands; that is, all services and retraining were structured to respond to project employer demand for the skills and occupations calling for workers' skills. The many components of the project, from intake to job search assistance following training, are organized into a coordinated delivery system, which is flexible enough so that workers can go through the entire system or only those parts of it required to meet their needs.

The following components make up the total system:

- **Registration.** Each worker is registered at one of the centers. Training center staff review the worker's job history and the job description provided by General Motors to identify each worker's experience, skills, interests, aspirations, and goals. Based on this information, it is determined whether the worker has marketable skills or is in need of retraining in a demand occupation.

- **Retraining assessment.** All workers interested in retraining receive a retraining assessment, which consists of in-depth counseling, a test to determine the approximate grade level of learning ability, and, if appropriate, an aptitude test. No training is undertaken unless there are estimated to be sufficient jobs available to secure reemployment.

- **Support services.**

  - **Mental health:** At the same time that skills and training needs are being assessed, each worker is also assessed to determine whether he or she requires referral to personal or family counseling (also known as stress counseling), or to the financial counseling that is provided through the community task forces. If such services are not required at the time of intake but are needed later in the process, a worker may return for such referral. Support services may include health and mental health services, family counseling, vocational rehabilitation, and alcohol and drug abuse counseling.

  - **Transportation:** The California State Department of Transportation, in cooperation with the training center, provides a variety of services to assist workers with transportation to training sites. This assistance includes: (1) ridesharing matching and placement assistance to help displaced workers organize car, van, and bus pools; (2) awareness programs to inform displaced workers what ridesharing is and how it can help them; (3) informational materials designed specially for UAW-GM workers, as part of the awareness programs noted earlier; (4) vans and driver training for newly organized van-pool groups and their drivers; and (5) tickets for public transit system rides.

  The critical elements are the van and car pools and the transit tickets, without which many workers could not afford to attend retraining classes.

- **Job search assistance and placement.** Those workers who are determined to possess marketable skills already or who develop such skills through retraining are provided with job search assistance, which consists of the following:

  - **Job development:** Center staff, union representatives, or loaned GM or other executives contact employers to solicit job orders in general, or to market the skills of an individual retrained worker.
  - **Referral and placement:** A worker who meets the minimum qualifications established by an employer is referred on a job order.
  - **Skills transference/job search workshops:** Workers with marketable skills are taught how to find local job openings, how to solicit job interviews successfully, and how to perform successfully in the interview process. In the skills transference part of the workshop, the workers are taught how to analyze their past jobs to identify their skills. They are also provided with labor market information that enables them to identify employers who will most likely have a demand for those skills. The workshop also teaches workers how to transfer their skills from one job to another.

- **Retraining.**
  - **Retraining plans:** To ensure that workers are eligible for California Unemployment Insurance Retraining Benefits, the staff of the Employment Development Department develops an individualized retraining plan for each worker requesting retraining. The plans take into account the worker's existing skills and interests and the condition of the local labor market, and are used to develop specialized training courses or to negotiate for openings in existing training programs.
  - **Employer-based training:** The State Department of Industrial Relations, in conjunction with the California Worksite Education and Training Office, provides staff to identify those employers appropriate for participation in the employer-based training component of the project. These are employers who hire the workers and who can provide on-the-job training.

- **Classroom training:** The State Department of Education and the chancellor's office of the California Community Colleges negotiate with local community colleges and with regional occupational programs, centers, and adult education programs to secure appropriate classes for GM workers, or to arrange for training slots in already existing classes and programs.

- **Trade Adjustment Act:** The training center, under the authority of the Federal Trade Adjustment Act, purchases training from private nonprofit and proprietary training providers, as well as public institutions.

- **Unemployment benefits:** Displaced workers who are enrolled in approved retraining under an approved individualized retraining plan are eligible for up to twenty-six weeks of additional unemployment insurance benefits. The Employment Development Department reviews and monitors retraining benefits.

It is estimated that two hundred workers will need either first-time or return visits of employment counseling assistance to make vocational decisions and to obtain support services, training, or employment during the phaseout period. The objectives of such employment counseling are to provide vocational assistance that will enable individuals to become job-ready and to obtain satisfactory employment. This will be accomplished by trained employment counselors using appropriate assessment skills and instruments to help workers understand themselves and their potential in relation to reemployment opportunities.

Table 10-4 reflects the activity in the UAW-GM project through May 1983.

UAW-Ford Employee Development and Training Program

The jointly administered Employee Development and Training Program is a key element of the comprehensive, interlocking mutual growth framework that the UAW and the Ford Motor Company created in their 1982 collective bargaining agreement. The agreement charters the program to "promote training, retraining and development activities and efforts, and in the process . . . contribute to the

TABLE 10-4

UAW-GM DISPLACED WORKER REEMPLOYMENT PROGRAM

Activity	Number of Times Service Provided
Registration	8,341
Entered Employment	1,456
Placements	664
Obtained Employment	792
Job Development Contacts	2,881
Promotional Employer Contacts	17,312
Job Search Training Workshops	236
Number of Participants	1,882
Referred to Training	2,906
Enrolled in Training	2,271
Referred to Supportive Services	2,227
Employment Counseling Interviews	3,550
Financial Counseling	251
Job Orders Obtained	1,077
Job Referrals	5,287

competitiveness and well-being of the company—aspects which are essential to the job security, personal growth, and development of Ford employees."

The program's principal objectives are as follows:

- Arrange for career counseling, retraining, job search training, and placement assistance for laid-off employees

- Assist in designing and obtaining appropriate career counseling, training, retraining, and personal development for active employees

- Support local and national UAW-Ford employee involvement efforts and other joint activities

- Provide opportunities for the exchange of ideas and innovations with respect to employee development and training needs

The Employee Development and Training Program focuses on the employee. The thrust is to expand the principles of involvement to those of caring—caring about careers, personal plans, and human progress. The program itself is being developed and applied along participative lines: local committees, employee voluntarism, local program flexibility and autonomy, and national support. Further, the program extends into the community, creating working consortiums with educational, social, and governmental bodies.

Program features are coordinated by the UAW-Ford National Development and Training Center. The center is directed and guided by a joint governing body consisting of an equal number of company and UAW representatives. Day-to-day operations of the center are managed by an executive director with a small staff of professional and administrative support personnel, including four program associates, a career counseling and guidance associate, and a job development and placement associate.

The center concentrates on planning, design, and coordination functions. It provides on-site assistance to local managements and unions to help them design and implement local program applications. It principally relies on existing community educational and counseling resources, and uses their faculties and curricula to provide specific training and development programs. The center is building a participative program delivery network linking local managements, local unions, and educational and community resources throughout the country.

Funding totals more than $10 million a year for the program, and the center and its activities are funded under the collective bargaining agreement at five cents per hour worked, with expenditures authorized and approved by the center's joint governing body. Like the UAW-GM program, funding has been supplemented by state and federal training funds.

Specific UAW-Ford program examples include the following:

National Vocational Retraining Assistance Plan.

- Includes a prepaid tuition assistance plan for certain laid-off employees.
- Covers tuition and certain fees up to $1,000 per year for up to four years, depending on seniority, for self-selected education and training.
- Through June 1983, over twenty-one hundred course enrollments have been approved throughout the United States.

Targeted vocational training projects.

- Specially designed, full-time technical or skills-oriented training for laid-off employees focuses on areas identified as having job prospects or representing future job growth markets.
- The initial project at Henry Ford Community College covered seventy-two individuals, including laid-off Ford employees from fifteen southeastern Michigan locations and eighteen individuals from other companies, through joint program and public funding arrangements. Forty-two participants recently graduated, and eighteen of them have found new jobs, to date.
- Projects have subsequently been initiated at five other locations, in cooperation with local training providers, which cover nearly three hundred more laid-off employees.

Career counseling and guidance.

- Assists both active and laid-off employees in forming and achieving their personal and career goals.
- Contains four main components: self-awareness, career awareness, career decision making, and career planning.
- Six joint local committees have initiated counseling and guidance for laid-off employees; the national center has assisted in assessing providers' qualifications and establishing local programs for nine locations covering more than nine hundred participants.

Job search skills training.

- Provides laid-off employees with self-directed job-hunting skills and professional job search assistance; this supplements basic state employment service and employment search orientation sessions.
- Training includes provision of labor market information and development of job-seeking support systems, resumes, and interviewing skills.
- Training is conducted by outside providers, generally from the academic community; varies from about a week or more; longer workshops include "job club" techniques at four locations.
- Through June 1983, special job search skills workshops have been (or about to be) established that cover over eight hundred laid-off employees, as of that date.

Special national center assistance for facility closings.

- On-site consultation and help in liaison with government agencies and community resources for Sheffield (Alabama casting plant) and San Jose (California assembly plant).
- Pursuit and procurement of state and federal funding to augment program-sponsored employee development training activities.
- Evaluation and assessment of local needs through vocational interest and related survey services.
- Career counseling and guidance activities aimed at assessing employees' interests, aptitudes, basic skills and attitudes; providing career and labor market information; and enhancing decision-making skills to ease transition to retraining and/or other employment.
- Basic academic brush-up courses under program sponsorship offered by local education and training providers.
- Formal vocational retraining programs, consistent with employee interest and labor market conditions, under

sponsorship of the joint program and other funding from external sources.

- Job search skills training supported by the UAW-Ford program and state funds.
- Job placement assistance.

Table 10-5 reflects the activity in the UAW-Ford Training Project through June 1983.

TABLE 10-5
UAW-FORD TRAINING PROJECT ACTIVITIES

Activity	Number of Times Activity Provided
Vocational Assistance	2,100
Targeted Vocational Training:	
Locations	41
Individuals	330
Vocational Plans and Interest Surveys:	
Locations	16
Individuals	6,300
Career Counseling:	
Locations	9
Individuals	982
Job Search Skills Training:	
Laid-off individuals	800

Assessment

Employment of those in the UAW-Ford program at this time is inconclusive. However, in both GM and Ford programs, many of the gains of employment do not appear to result from retraining, but rather from the program's counseling and job search advice. Retraining alone does not have a significantly greater impact on reemployment rates than job search assistance.

Admittedly, an economy with an unemployment rate of more than 10 percent is a poor laboratory for testing the idea of recycling blue-collar workers. There have been enough success stories to provide some basis for optimism, and some experts agree that even a handful of successful conversions of ex-industrial workers makes it all worthwhile. But even its advocates acknowledge that retraining has limited potential.

It may be too early in these programs to say that these are conclusive results, but training programs must be all-inclusive, with a great deal of emphasis on counseling and guidance, as well as financial support systems being made available while in training. And such support systems are an absolute necessity for adult workers involved in training programs. Workers who are unemployed and, in most cases, without income of any type need transportation costs, child care, legal and financial counseling, and subsistence to be able to take full advantage of training.

LABOR'S VIEW OF THE JOB TRAINING PARTNERSHIP ACT

The Job Training Partnership Act (JTPA), enacted in October 1982, creates a new federal training program. This new legislation replaces the Comprehensive Employment and Training Act (CETA), which for almost a decade was the principal vehicle for assisting Americans in need of employment and training services.

The newly created training system differs from CETA, and is seriously inadequate in a number of aspects. However, the new act presently is the only means by which federal support for such activities as training, retraining, and job search assistance is available. One positive feature of the new legislation is a new displaced workers program that should be of some assistance to laid-off workers, although it, too, has serious limitations.

Funding for the displaced workers program—current or proposed—falls far short of meeting existing needs. Initial appropriations by Congress for the current fiscal year (1983-1984) are only "seed" money to begin the program, and proposed funding for fiscal 1984 is expected to reach only a small percentage of the workers estimated to be displaced among the nation's 11 million unemployed. Moreover, the program is encumbered by restrictions that will hamper the effectiveness with which even these limited funds may be utilized.

There is a need to increase funding vastly for all aspects of JTPA and to provide continued funding to ensure the continuous existence of the program and allow longer-term planning. Moreover, programs should be fully federally funded, and the requirements for state matching funds eliminated. Also, legislation should require advance notice of major plant shutdowns or major mass layoffs, and should remove any limitations on the use of federal funds for stipends, allowances, and support services.

Indeed, Congress should require that stipends and allowances be provided. Without such income maintenance, participation will be limited and programs will move toward short-term training, which often fails to result in skill development leading to good, long-term job opportunities.

Congress also should require that supportive services be provided, since they often are a precondition for the success of training or other forms of assistance. For many displaced workers, particularly those who have been unemployed for some length of time, it is impossible to raise sufficient financial resources to support their family needs and to pay for transportation to the training site, as well as have money for lunches, telephone calls for job search activities, and transportation to job interviews. In some cases, unemployed parents will be unable to participate in training programs without child care.

It is also essential that displaced workers have access to counseling to deal with family problems associated with unemployment (e.g., drinking and marital problems) and other psychological and emotional difficulties. To avoid the stigma and complexity of existing social service agencies and to encourage displaced workers to view themselves as part of the total working population, social services (including the services of a trained social worker) should be available at the training site or through an information and service center that can be available for referral. Tied to those needed services are health care protection and assistance with mortgage and utility payment difficulties.

IMPLICATIONS FOR TRAINING AND EDUCATIONAL INSTITUTIONS

Models are needed in job training. Such models exist. The job training programs established by the UAW and Ford, and the program being implemented by the UAW and General Motors Corporation, as well as the language establishing such programs in numerous UAW-company contract language agreements are a good place to begin. For a company or business to attempt to undertake such a concentrated effort as job training and retraining, there must be cooperation; there must be coordination; there must be a mutual working relationship between company and union; and the participants must seek outside help through educational institutions to deliver programs. The same rules apply to educational institutions.

For an educational institution to consult only with management in business or industry about the training and job retraining needs of its workers, without also consulting with the union representing those workers, is unthinkable. Labor believes that the four integral parts of any such job training relationship are employers, unions, educational institutions, and government. Unions, for the most part, represent the workers for whom the job training program is intended. Labor representatives have knowledge and expertise to offer. They know their members. They are closer to them in the communications process than anyone else. They know their needs, their wants, their hopes and aspirations. And they represent them at the workplace and in the community.

Educators, management representatives of business and industry, governmental leaders, and union representatives need to do several things if this entire training effort is to succeed. The first is to have a blueprint for a working America.

The Problem—Lack of Industrial Policy

Imports and artificial trade barriers have eroded jobs and contributed immensely to the decline of the economy and the displacement of industrial workers. So have (and will) technological change and robotics. Yet the federal government's industrial and labor market policies are practically nonexistent.

No modern developed country can afford to allow its basic industries to deteriorate. And in virtually all the other industrial countries—except the United States—government, business, and labor have forged a national industrial policy to help their key industries modernize and stay competitive in the productive economic sectors that generate good jobs and healthy growth. Yet our government has not only failed to develop a positive plan to help our basic industry, it has adopted economic programs that have squandered public capital by giving wasteful tax breaks to the wealthy, and has worsened the world recession by keeping real interest rates high and choking off productive industrial investments.

Americans can no longer sit idly by while our basic industries are devastated by our own government's disastrous economic policies and by competition from foreign companies supported by their national governments. If we allow our industrial jobs base to go down the drain, we will also soon lose many of the service-sector jobs that depend on the profits, the payrolls, the tax revenues, and the productivity increases that are generated by our manufacturing industries. Ensuring a strong, diversified industrial base is essential to this country's future prosperity, to maintaining healthy communities, to achieving full employment, and to continuing America's leadership in world affairs. Reversing the current painful process of deindustrialization will require a national commitment to a new American industrial policy designed to rebuild our country's ailing industrial base and to foster new industries as the foundation of sustained, balanced economic growth.

Most American industries are now operating at less than 70 percent of capacity and will not be able to invest capital in new plant expansion or modernization until consumers start buying their products. And that cannot happen until more Americans have jobs and money to spend. Thus, a large-scale public jobs program—on the scale of the recent AFL-CIO proposal—could not only take millions of Americans off the unemployment rolls and put them to work, it could also stimulate growth, investment, and new jobs in America's basic industries.

But even if we are successful in pulling the American economy out of recession, we must forge positive new policies to help American industries and workers rebuild after more than a decade of failed economic policies, corporate mismanagement, external inflationary jolts, and aggressive foreign competition. We must face the fact that plant closings will continue to devastate communities and workers unless we pass new laws to establish basic corporate responsibility for the community impact of shutdowns. We must establish new forms of public assistance to lessen the shock of the economic dislocation, retrain unemployed workers, and bring new jobs into the community.

Any plan to rebuild American industry must also recognize the new importance of international trade to the American economy. Twenty years ago, American companies dominated world markets. Today, foreign companies of Japan, Western Europe, and new industrializing countries—backed by their governments' industrial policies—have taken over many world markets for manufactured goods, including a large and growing share of the American market. We must take action to counter the unfair trade practices of other countries and to compete effectively for a share of the markets that are important to a healthy American economy. The first goal of American trade policy must be a healthy American industrial base and the preservation or creation of American jobs.

The real key to a healthy American industrial base is productive capital investment, that is, to keep our older basic industries modern and efficient and to make sure that our newer high-tech industries stay on the cutting edge of technological development and applied production processes. A national industrial development bank would be one essential institution that could make and guarantee loans to finance private and public capital investment projects.

Rebuilding American industry will require a new kind of social contract among business, labor, and government. To qualify for special treatment targeted to the specific needs of individual industries, companies will have to commit themselves to a productive and responsible use of those resources. Increased investment in new productive equipment will have to be made in the targeted industries, rather than in corporate takeovers in other industries. Those investments should be made in this country, not abroad, and in existing locations, wherever feasible. There should also be positive assistance to displaced workers and communities when existing facilities have to be abandoned to cut back.

Reindustrialization programs developed through this tripartite process should emphasize a healthy workplace and a clean environment, nondiscrimination for women and minority workers, and development of rewarding, decent jobs for all workers. Companies receiving targeted application of public resources for revitalizing their industries must acknowledge the rights of workers to join unions. Government, business, and labor must be prepared to contribute fairly to the rebuilding of American industry. By bringing together the major parties in economic decision making within such a framework, a national industrial policy could help ensure that coherent, coordinated policies result in achieving the economy's basic goals: full employment and a rising standard of living for Americans.

This nation cannot have a healthy economy without a healthy auto industry. Those who suggest we can simply purchase automobiles made overseas are really advocating that we write off our other basic industries that depend on American auto production. They also ignore the fact that American auto producers are the major market for the products of such new high-tech industries as industrial robots and semiconductors. Does anyone believe that the Japanese will purchase their robots from American manufacturers to build cars or manufacture steel in Japan?

Organized Labor's Suggested Solutions

America needs a new industrial policy because the old rules no longer work. Years of haphazard planning have put profits before people and short-term gains before long-range needs. This has left our nation with thousands of idle plants and millions of idle people. Now we need a careful, coordinated program to rebuild industry and put people back to work.

The first thing to do is to set goals for investment, research and development, trade policies, business growth, and all the other necessities for industrial rebirth. Then we must ensure that the plans are financed and carried out. We need to draw on the strengths of our older, mature industries while developing the potential of emerging industries in order to create an economy of abundance. By participating and discussing, coordinating and carrying out, we can bring to birth an economic renaissance. But it will take careful deliberation in which *all* must participate.

Completely new approaches must be designed and implemented. Incentives must be designed to promote a greater cooperation among labor, private/governmental employers, and education or training institutions for the purpose of preparing citizens for new careers and upgrading skills on current jobs.

There should be a structure to allocate federal resources, and it must be designed in a manner that promotes interstate planning for labor market areas that cross state boundaries. Programs must be designed to encourage workers to seek preparation to qualify for emerging occupations, to be mobile, and to maintain their employment as well as seek training while still employed.

The currently fragmented authority and accountability for the federal job training programs must be clarified, unified, and enhanced with additional funding. These programs must be redesigned to meet the needs of adult trainees.

Effective research and responsibility are required to predict changes in work force needs. In this way, realistic educational programs reflecting long-range national needs will be developed. Skills, jobs, and industries becoming obsolete must be identified earlier.

Skill development strategies and long-range time frames are required to satisfy the need for total human development, and specific occupational training must be provided to avoid repetition of displacement for individual workers.

The rapidly changing state of equipment-intensive technologies has outpaced insitutional ability to respond with traditional resources. Training institutions must have the option to purchse or lease necessary equipment as part of program funding. This should include maintenance costs.

There must be both short- and long-term related employment prospects for individuals completing job training programs. Displaced workers must be able to obtain meaningful work. Jobs are the basis for economic recovery and development.

Education and training institutions must be prepared to depart from the traditional classroom setting and move to places of employment or to union halls, where the adult worker will be more at ease.

Community colleges deserve the praise and support of labor. Hundreds of them have taken up the slack from secondary school systems that failed to prepare young men and women adequately for the world of work upon graduation from high school. We have come to rely upon two-year colleges and institutions for supplying the academic study courses and hands-on training for many of our recognized apprenticeship programs. We have relied upon two-year colleges in the past (and shall do so again in the future) to present the adult working population of their communities with the kinds of hands-on training and job updating skills that the workers need to keep abreast of changing technologies.

However, we need to change the system of secondary vocational education to produce a closer working relationship between secondary and postsecondary institutions of learning. And we need a more effective articulation system between the two-year community and junior colleges and the four-year colleges and universities. Overall, there has been a change in educational needs that no longer implies or suggests, but now mandates that education be a lifelong learning process. We now realize that many workers may change jobs completely as many as five or six times over their adult working lives. Each such change may require a return to the classroom or training site for varied lengths of time, contingent upon their job skills training needs.

The workers in our society should no longer look upon the attainment of a high school diploma as a terminal educational attainment in their lives. We subscribe to the principles of lifelong learning and continuing adult education as an emerging norm for workers of every description. We visualize workers becoming equally at ease in the classroom or the workplace and learning from both throughout their work lives and even into retirement.

There will continue to be adversarial relationships between business/industry and labor in America. That condition is part of the balancing process in our democracy. But that adversarial relationship, by and large, has worked to the benefit of our entire society over the years. We have also proven that unions and management can work together at the workplace. But the challenge now exists beyond the workplace. We must reach out to educational and governmental institutions to seek help in developing programs that will provide a full employment economy with a work force that meets the changing needs of our nation.

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JAMES F. ROSS

Educating for Change: A Comprehensive Approach to Assisting Displaced Workers

It became apparent in the early stages of the Bethlehem Steel Corporation's development of a program to assist displaced workers that it would be necessary to establish a series of partnerships involving industry, educational institutions, government, and business. The nature of the problem faced by displaced workers is such that only a joint effort on the part of all of these local organizations has any hope of success. Community economic development is vital, but so is the establishment of linkages with community agencies and organizations.

The hope of those involved in planning the program was that the establishment of Bethlehem Steel's career continuation centers in economically deprived areas would act as a catalyst, instilling a new spirit in the work force. Bethlehem Steel did not see its career continuation centers as long-term projects. By linking these centers with community-based organizations, the groundwork was laid for management by local agency personnel.

The goal of having Bethlehem Steel's career continuation centers act as a catalyst for community-based efforts and economic redevelopment was achieved recently when the establishment of a Johnstown Area Career Continuation Center was announced. The reemployment program at the Johnstown center is a collaborative effort developed and operated by the Johnstown Area Regional Industries (JARI); Bethlehem Steel Corporation; the Center for Technology, Training, and Development of the Southern Alleghenies (CENTECH); and the state and federal governments.

In a speech delivered on August 3, 1983, the governor of Pennsylvania, Dick Thornburgh said, "The Greater Johnstown Area Community Reemployment Program represents a unique partnership among state, federal, and private sector resources to address the problem of dislocated workers." Governor Thornburgh further stated:

> This plan is not some government program handed down from Harrisburg, it was developed from the grass roots up by Bethlehem Steel, by JARI, by CENTECH, and by state and local governments as well. It is this unique partnership that will help Johnstown reassert itself as a thriving, developing Pennsylvania community.

In addition to the establishment of a community-based program for Johnstown, Pennsylvania, discussions are underway with officials of the state of New York regarding the duplication of this unique partnership concept in Buffalo. Bethlehem Steel's efforts on behalf of its employees have also earned national recognition.

In a recent full page story, *Time* (1983) magazine reported:

> One major steelmaker [Bethlehem] is trying to help dislocated employees understand that the end of a steelmaking job is not the end of the road. Bethlehem, where employment has gone from a peak of 115,000 in 1975 to 48,500 at present, was the first major U.S. corporation to develop a comprehensive program to deal with the emotional impact of permanent layoffs. (p. 46)

The community-based partnerships, as well as the recognition by *Time* magazine, are the result of two long years spent developing an effective program to assist displaced workers. This program requires a comprehensive approach, the basis of which is educating for change. The next section provides a review of the problem and Bethlehem Steel's program development.

IDENTIFYING THE NEED FOR A PROGRAM

Steel production in the United States in 1981 and in the early months of 1982 mirrored the general trends of the nation's economy as a whole. In the last half of the year, however, the demand for steel withered as the economy slumped. High interest rates sharply curtailed the sales of the industry's major customers. Automobile purchases sagged to modern-day lows, and, at the same time, the machinery, appliance, capital goods, construction, and equipment industries weakened.

While this was happening, the domestic steel industry's sales problems were compounded by a startling surge in imports of carbon and specialty steel products. Steel imports skyrocketed from a 13.9 percent share of the U.S. market in the first quarter of 1981 to a 23.7 percent share in the last quarter. In tonnage terms, steel imports were 28 percent higher in 1981 than in 1980, despite the sharp drop in overall steel demand.

The average number of hourly workers engaged in the production and marketing of steel during 1981 fell to its lowest in fifty years. The number of employees working during December 1981 was the lowest one-month total recorded, to date, by the American Iron and Steel Institute, and the decline continued in the early months of 1982.

Total steel industry employment, including salaried workers, averaged just under 391,000 persons for all of 1981, compared to 399,000 in 1980. Total employment continued to decline and, at year's end in 1982, accounted for less than 289,000 total hourly and salaried workers.

Changes in Corporate Responsibility

In the fall of 1981, it became apparent to Bethlehem Steel's management that, due to reduced demand for steel as well as a major restructuring of corporate functions, long-service employees would be losing their jobs. They included clerical, technical, and blue-collar employees working throughout the country in shipyards, coal mines, and steel plants. They worked in some of the most economically deprived areas of the country, such as Buffalo, New York, and Johnstown, Pennsylvania. Bethlehem Steel's management believed that it had an obligation to help these employees and their families deal with the trauma of job loss.

Recommended Solutions

A review of the problem of Bethlehem Steel's displaced workers revealed that there was no easy solution or quick fix. The company was faced with several options:

- Retain the services of a placement firm, for which Bethlehem Steel would pay all fees. The firm would assist workers in finding new jobs.
- Have the affected employees form job clubs and self-help groups. Here they would assist each other in learning about job openings.
- Provide additional economic support to assist the workers during their periods of unemployment.
- Provide professional training in job search techniques that would give employees a competitive edge in a very tight job market.

Each of the options was carefully analyzed and each had some inadequacies. This confirmed the fact that there is no simple solution to this very complex problem.

After examining all of these alternatives, the company concluded that the best approach was to provide professional training in job search techniques in order to give its employees a competitive edge.

STRUCTURING OF A PROGRAM TO ASSIST DISPLACED WORKERS

A Separate Identity

In structuring a company-sponsored program to assist displaced workers, a prime consideration must be the perceived image of that program. In order for such a program to be effective, it should avoid being perceived as an arm of management. The people managing this effort cannot become the defenders of the company. This separate identity involves the staff who manage the program, as well as the location of the centers. The location must be on neutral ground, away from areas associated with company employment functions. Bethlehem Steel believes very strongly that the creation of a separate identity for the career continuation function has contributed significantly to the success of the program.

The Career Continuation Center was established in Bethlehem, Pennsylvania, and regional centers were located where significant force reductions occurred. All outlying areas were serviced from the regional centers.

In addition to establishing a separate identity for the career centers, the company decided that affected employees (i.e., employees who were scheduled to be terminated in the short term) should *not* be involved in the management or implementation of programs at any of the centers. In contrast, the centers were to be staffed with trained professionals retained as consultants for the program, temporary employees, or a limited number of Bethlehem Steel employees.

It should be emphasized that an essential element in the success of the program is the use of *trained professionals* who have in-depth experiences in dealing with change. The company recognized that it would not be enough to give a group of people a week or two of training on how to handle the trauma of job loss and on the techniques needed to find a new job. The situation is one of *structural* unemployment caused by a reduction in the size of the basic steel industry in America. Hit-and-run solutions (typical consulting modes, for examples) are almost worse than nothing. The company could not put Band-Aids on gaping wounds. It was time to offer the best assistance available.

Involving Stakeholders

When structuring the program to assist displaced workers, major consideration was also given to the acceptance of the program by various divisions within the corporation. Clearly, the program had to be perceived as a corporate effort and therefore all stakeholders—including those divisions and departments who would be terminating employees—must be involved in the design of the program. The program's concepts and outlines were reviewed with every department head to ensure their acceptance. Stakeholders were told how the program should work and their agreement was secured. This process of reviewing career continuation procedures and plans with department heads built credibility for the career continuation staff. As a result, the staff had direct input into force reduction plans. It was agreed by all concerned that communication with the centers would be directly through company department heads and division managers. And the specifics of their plans would be confidential. The career continuation centers, would, in fact, act as their agents.

Initial Program Results

After the first six months of providing job change workshops, an analysis was carried out to determine the effectiveness of the program. The company looked at one hundred former employees who had participated in job change workshops at the Lackawanna, New York, Plant and home office departments in Bethlehem, Pennsylvania, to determine if they had found new employment. These employees were compared with two hundred other employees who had been terminated prior to the inception of the program and had not been provided with job change workshops. These were former employees from Johnstown, Pennsylvania, and the Bethlehem plant in Bethlehem, Pennsylvania. These two groups were chosen because of the relative similarity in their economic conditions.

Group A consisted of those employees who were provided with job change workshop techniques, and consisted of one hundred former employees. *Control Group B* included those employees not yet provided with job change workshops, and contained two hundred former employees.

Results of the analysis showed that, after 120 days in a job campaign, approximately 55 percent of the former employees in group A had found new employment. After the first six months of unemployment, 10 percent of the former employees in group B were reemployed. The anlaysis further revealed that the majority of employees in group B had taken pay reductions. Most of the employees in group A had made lateral moves, and about 15 percent had actually found employment at a higher pay level.

Other factors may have contributed to the differences between group A and control group B, but a careful analysis showed that the only difference between the two is that one group was trained in how to find a job and the other group was not. It was also apparent that employees benefited not only by learning how to find a job, but also by helping determine what job was best for them.

After the initial experience with job change workshops, the company also found that it was vital to have an orientation prior to actual enrollment of candidates in the workshops. The affected employees were invited into the workshop to receive a detailed explanation of exactly how the job market works and what is required to find a new job.

The review of initial program results also indicated the inadequacy of simply emphasizing marketing techniques. The company found that the workshops had to be modified to focus on personal growth questions, such as who am I, what is it that I'm selling, what are my basic strengths. The workshops were dealing with a very fundamental question of adult education and the notion of reframing people's views of themselves. Many of those who took the early workshops said that it was absolutely crucial for them to begin to look at themselves in an entirely new way. They were approaching the job market in their midlife period. They used to think of themselves as steelworkers; now they had to create a new framework of identity.

In reviewing the early program results, the initial reaction was that the program was effective and should be continued. Attention had to be paid, however, to the people who had not yet found employment: the 45 percent of group A and the 90 percent of control group B. These were people who could soon join the class of structurally unemployed workers. Faced with additional force reductions and the need to improve the effectiveness of the program, it was time for the company to go back to the drawing board. It was time to find out what was happening in the hearts and minds of the workers, their spouses, and their children. It was time to develop a *comprehensive* approach to assisting displaced workers.

EVOLUTION OF A SECOND-GENERATION CAREER CONTINUATION PROGRAM

As the company gained experience with the displaced worker problem, it became apparent that the comprehensive program had to begin with the fundamental issues: how to notify terminated workers, and then how to provide an effective support system of counseling, job change workshops, follow-up support, and retraining. It was also apparent that the death of a job is not an individual worker's problem. The entire family unit *must* be involved. Everyone is affected.

Displaced workers go through all the traditional stages associated with death and dying: denial, bargaining, hostility and anger, depression, and finally, acceptance. For displaced workers it is crucial that they experience these stages in a controlled environment with professional counseling. The workers can then sever the umbilical cord from their old jobs and channel their energies into something productive—a new career.

Bethlehem Steel's comprehensive approach to assisting displaced workers has evolved into a five-phase program that must be individually tailored to the specific needs of a community. An essential element of this program is the presence of a residential counseling staff. These staff persons move to the community. Every day they see (and are seen by) the dislocated workers who are grappling with change. The necessary momentum for a successful program cannot be created and implemented by part-time professionals.

The following section discusses the components of the five-phase program.

Phase One—Plan Development

Prior to the implementation of a career continuation program, it is necessary to establish linkages with community leaders and related agencies. The various state employment services, private industry councils, and all resources available to displaced workers must become involved.

Bethlehem Steel's experience has shown that, in times of stress, many individuals turn to their churches for help. In the development of a workable plan, it is essential to seek the assistance of the local clergy. The clergy must be trained in the dynamics of job loss and made aware of the services available to displaced workers in the career continuation centers.

The availability of funds for entrepreneurial activities (e.g., through small business investment corporations) has proved to be very beneficial.

Unions too must become involved, not only to endorse the activities of the career continuation center, but also to encourage actively their membership to participate.

In order to ensure that displaced workers have a clear understanding of exactly why they have been terminated, what is happening to them, and what services will be available, it is necessary to train supervisors in effective ways of notifying workers of job termination. In the Bethlehem program, supervisors are introduced to every level of emotion they may expect to see and are instructed in how to deal with them. Supervisors and managers are given explicit instructions as to what to say and what *not* to say. They are also told of the danger of giving employees false hopes that will have a negative impact on their ability to sever themselves mentally from the company.

At the conclusion of termination interviews, *trained professionals* from the career continuation staff are available to meet with the employees, either in small groups or individually. The company has found it beneficial for these meetings to be held before employees notify their families of the termination. The purpose of these initial meetings is not to explain the mechanics of job search or the activities of the career continuation centers. The purpose is to begin to establish rapport with the clients and to begin giving them a constructive way to channel their emotions.

Phase Two—Counseling Services

The company staff involved in the displaced worker program quickly realized that in order to deal effectively with the emotions and anxieties experienced by displaced workers the program had to do something new, something unique. As a result, the program was built around a wide range of counseling services:

- Crisis intervention. During this segment of the counseling phase, "emotional first aid" is provided for displaced workers. This first aid consists of providing twenty-four-hour, seven-day-a-week hotline that the workers can use to get immediate assistance from trained professionals. The number of people requiring crisis intervention help has varied, depending on the age of the work force and the type of workers. Program experiences indicate, however, that traditional white-collar workers have *more* difficulty dealing with the death of their jobs than do their blue-collar counterparts. In addition, the program found that it is good to expose *all* workers to an initial meeting in order to help them understand the emotional aspects of separation anxiety and to begin talking to them about "life after Bethlehem."

- Short-term counseling. Short-term individual, marital, and family counseling is provided in order to assist the entire family unit to prepare for change. This counseling is *not* provided by the career continuation centers on a long-term basis. Employees who will require long-term counseling are referred to professionals in the community for this help.

- Career counseling. A series of tests (consisting of the Myers-Briggs Type Indicator and the Strong-Campbell Interest Inventory) and in-depth interviewing are the basic tools of career counseling. Spouses are involved in this counseling. Financial and relocation information is also provided. The program staff have learned that many of the displaced workers have preconceived notions about new careers, based on information provided by "others." It is necessary that the displaced workers be provided with objective information, based on test results, interview information, and personality confirmations. It is also necessary for the counselors to guide the displaced workers and help them internalize their own decisions. It is wrong for a career counselor to suggest a change in vocation that the displaced worker has not internalized.

Phase Three—Job Search Training

The job search training phase consists of four half-day workshops, followed by a series of job search action club meetings. The first two days of the workshop follow up on information provided by the counseling phase. The final two days of the workshops address the "how to's" of marketing yourself in a new job.

The job search training phase begins with an introductory session designed to orient participants, their spouses, and their families. This session is generally held about a week prior to the actual job search training. During the introductory session, workshop leaders show visual examples of various job markets, explain the purposes of the workshop, and begin to facilitate a positive attitude toward job search. At the conclusion of the introductory session, spouses are invited to attend job search training programs with the displaced workers.

When the four-day program ends, participants and their workshop leaders meet in a controlled environment on a weekly basis to continue job search training. These meetings are held as part of job search action clubs. Each member of a club is required to provide a weekly activity list so that his or her progress can be reviewed. There has been great benefit from continuing the job search training into the job search action clubs. These clubs, led by *trained professionals*, provide follow-up support and motivation for rapid success in the job search process.

Phase Four—Follow-up Support in Job Development Services

A weakness of the initial program was that it did not provide a full range of follow-up support systems for the displaced workers. All the career centers now provide facilities for typing and printing of resumes, uses of telephones, and a physical environment to conduct a job campaign. Career centers have full-time job developers who meet with employers to discuss their labor needs and the types of candidates available from the career centers. These support services have also helped to establish cooperative liaisions with other area companies and to identify potential job openings.

Some displaced workers and their families may not exhibit emotional difficulties in the initial stages of their transition. They may, however, have delayed reactions several months after termination. By providing follow-up support services and having an established network with spouses and family members, the program staff can identify difficulties and provide counseling as necessary.

Phase Five—Training/Retraining: An Industry-Education Partnership

In order to deal effectively with the thousands of displaced workers affected by the deindustrialization of America and the need for retraining the structurally unemployed, partnerships among industry, educational institutions, government, and business must be established. Phase five of Bethlehem Steel's comprehensive program concentrates on these partnerships.

Approximately 70 percent of the displaced Bethlehem Steel workers who enter the program can be placed in new positions *without* new training. Of the remaining 30 percent, a critical element is the selection of the right retraining program.

The career continuation centers do not themselves provide retraining opportunities. They have established linkages with educational institutions and refer candidates to retraining programs. An essential element of the comprehensive program is the use of trained professionals, because they are best suited to provide retraining and are already in place in educational institutions.

The development of partnerships among industry, business, educational institutions and government that will act as a catalyst for economic development is an exciting idea. So are the prospects of a results-oriented comprehensive program to assist thousands of displaced workers and their families. Those ideas are alive and well and working today in Johnstown, Pennsylvania. This effort could well function as a national model to serve muncipalities across the country that face the harsh realities of structural unemployment. Consequently, it is appropriate to outline briefly the Johnstown program, with particular emphasis on the industry-educational institutional partnership.

The Johnstown Model

Since the year of its incorporation as a city, Johnstown and its surrounding areas have been devastated by three major floods. Each time, after a tremendous loss of life and property, and people of Johnstown cleaned up and rebuilt their community. After the most recent flood in 1977, placards were hung in store windows, banks, schools, offices, and factories with the words, "We Will Rebuild." Within a short time, those placards were overprinted with the words, "We Did Rebuild."

In March of 1983, largely due to the restructuring of operations at Bethlehem's Johnstown Plant (the area's largest employer) and to high levels of unemployment in the coal industry, the Johnstown area had an unemployment rate of over 20 percent. In order to deal effectively with this problem, a collaborative effort involving Johnstown area regional industries, Bethlehem Steel, and state and federal governments was established. This effort represents a public/private sector partnership dedicated to addressing the type of structural unemployment now at depression levels in Johnstown, Pennsylvania.

This community-based program was designed to provide comprehensive counseling, job search training, and retraining opportunities, as well as economic redevelopment, over a three-year effort. In the first year of the program, five thousand structurally unemployed workers from the two-county Johnstown area will have been serviced.

Getting the people of Johnstown back to work will require a systems approach that not only aids individuals and their families but also concentrates on the needed structural changes. The goals of the program are designed to reflect this need and to emphasize the critical component of a public/private industry-education partnership. Business, government, labor, industry, and education must all work together.

The training and retraining components of the Johnstown program are being offered in collaboration with the Center for Technology, Training, and Development of the Southern Alleghenies. Funds for this training component have been provided by the state of Pennsylvania. The training/retraining center is an independent, nonprofit corporation governed by a board of directors with membership drawn from the following institutions:

- Greater Johnstown Area Vocational-Technical School
- Johnstown Area Regional Industries
- Southern Allegheny's Planning and Development Commission
- University of Pittsburgh at Johnstown

The retraining center has been established to aid the efforts to revitalize the economy of the Southern Allegheny region by working with established agencies and institutions who provide the following services:

- Training and basic education programs designed to meet the immediate and projected needs of existing and emerging businesses and industries
- Technical consulting services to existing businesses and industries assisting in the physical and technical development of emerging commercial ventures
- Research aimed at understanding the design and manufacturing needs of high-technology industry and to share this information through training programs and technical consulting

- Consulting services for the development and testing of products prior to commercial manufacture and production

As reported by Birch (1979), more than 80 percent of all new jobs generated between 1969 and 1976 came from small businesses, not from Fortune 500 companies. In order to act as a catalyst to promote the development of new businesses in the Johnstown area, a small business investment corporation has been formed. It has put together a multimillion dollar fund to aid new, small business development.

The Career Continuation Center is currently screening, testing, and evaluating candidates and then referring them to the Greater Johnstown Area Vocational-Technical School and to the University of Pittsburgh at Johnstown for retraining. Job developers in the Johnstown area are playing a crucial role in helping to attract businesses to Johnstown. It is important to note that these job developers work in close cooperation with educational institutions. They also make sure that there is a close match between training programs and community needs.

When I first went to Johnstown, I heard about an unbelievable "Johnstown spirit." I was told that you can see it, you can feel it, and everyone is touched by it. And as I met with local business and community leaders, I found myself becoming a believer. On the strength of that belief, a bold program that would require a unique communitywide partnership—a community-based career continuation center for *all* of the unemployed in the Johnstown area was proposed. As a key element, this program would also seek to strengthen the area's economic base.

This was no modest proposal. But these leaders, instilled with the irrepressible Johnstown spirit, recognized an opportunity to do even *more*. They said, "Let's make this a model for the nation; let's put Johnstown on the map."

Each of you is challenged to catch the Johnstown spirit!

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12

ROBERT B. MCKERSIE

Union and Management Experiences and Perspectives on Training Displaced Workers: Reactor Comments

The two excellent chapters by Shy and Ross illustrate the key roles that the principals in the employment relationship can play in meeting the critical needs of displaced workers. I emphasize the word "principal," because the employers and the unions are closer to the workers than any of the other labor market institutions. We often forget the rather obvious fact that the employers and the unions know more about the capabilities, expectations, and possibilities of workers in a given employment relationship than anyone who comes from the outside.

I would like to use a phrase to capture the opportunity that the employers (and, to a large extent, the unions) face when economic dislocation is involved, namely, the "employer of last repose." The term "repose" captures an important element of what distinguishes displaced workers from others who are unemployed in the labor market; specifically, these workers, until their displacement, enjoyed steady, well-paid work, and most expected that their place of employment would be their niche in the labor market until retirement. It is because of this shattering of expectations that job loss is so traumatic. It is also why the discharging employers have a key role to play. This is the philosophical basis for why employers in most European countries play such a decisive role in helping workers through transition to other employment.

Aside from the knowledge that employers possess and aside from whatever social obligations may be laid upon them, there is a very practical reason for expecting employers to "run interference" in the labor market, especially by identifying and brokering other job opportunities to which their displaced workers can move. In research (Aronson and McKersie 1980) done at Cornell that focused on the shutdown of Brockway Motors in Cortland, New York, a very important reality was noted, which is that displaced workers are *stigmatized* in the local labor market. Other employers would not touch the Brockway workers, despite their skills and reliability as steady workers.

Some of the reasons for such reluctance are clear. For example, these workers had high aspirations for wages, and employers were not interested in employing people who were looking for jobs that paid ten to twelve dollars per hour when the employers could pay only six to eight dollars per hour. Prospective employers were also afraid that such workers, used to well-paying jobs, would leave as soon as they found something better. What was not discussed as much was the fact that many of the dislocated workers came from unionized shops.* In a community like Cortland, where many of the employers are nonunion and want to remain that way, they were reluctant to hire Brockway workers for fear of bringing in the "union virus."

These findings underscore the proposition that employers have an obligation to help their laid-off workers (whom they presumably feel were satisfactory workers for them) find other employment in the labor market. A number of people have asked, "Why are we spending so much time helping displaced workers when some of the jobs that we would be directing them to could be filled by others in the labor market, especially disadvantaged workers—those who have not had any chance for good jobs?" This is a valid question. But the extent that employers do not hire displaced workers because they think that they are "high rollers" or "union-prone," a valuable and seasoned human resource is being dissipated. Therefore, employers and unions have a role, along with other institutions, to help deploy this resource for the advantage not only of the workers themselves, but also for the productivity of the national economy.

Unions, too, have a distinctive role in helping displaced workers.

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*There is a close correlation between unions and older plants, which tend to be the ones that are being shut down today. There does not appear to be any other connection between unions and plant shutdowns, except the historical accident that the plants now thirty or forty years old are the ones that were organized back in the 1930s and 1940s.

Typically, unions in this country have not played a strong role in helping workers move to other employment relationships (at least in the manufacturing sector).* Even today, some unions are reluctant to play too integral a role for fear that they will become associated with plant shutdowns. They also feel that there are other agencies in the labor market better equipped to deal with these problems. This may explain why steelworkers have not been very involved with the Bethlehem Steel Corporation in the kind of programs discussed in Ross's chapter.

Nevertheless, many unions, especially the United Auto Workers (UAW) and the Communication Workers of America, are seizing the initiative and playing key roles in helping displaced workers. This new posture may be very beneficial for unions in the future. To the extent that unions create a good track record during this economic downturn, they will be able to use it as a basis for organizing workers. In effect, they will be able to say, "Remember that the last time, when there was economic trouble, we played a very significant role in minimizing displacement and in helping workers who were inevitably going to be shifted in their labor market attachment. If you join a union, you can have this kind of protection and assistance."

An important issue is how to bring about more union involvement of the sort that we see in the experience of the UAW with Ford and General Motors. In these instances and in others, the unions involved see an opportunity to fashion programs and transition arrangements through collective bargaining. These unions have made job displacement a very explicit concern of collective bargaining; in effect, they are engaging in negotiating a shift of resources that a company may make available for workers, away from those who are the core work group and who have little danger of being displaced and toward workers who are in transition.

I do not agree with Ross that there is one model or type of approach for dealing with the displaced worker challenge. Table 12-1 illustrates some of the possibilities. The three rows distinguish (1) whether the programs are initiated solely by employers (which would be the case in the absence of a union), (2) whether they are joint union-management endeavors (as we see between the UAW and Ford/General Motors), or (3) whether they are operated solely by the unions. In the last category, the UAW has already established a number of excellent assistance centers that they have set up on their own in cities where there has been a concentration of displaced workers. For example, in New Bedford, Massachusetts, the UAW established an assistance center when Continental Screw closed down and moved its operations to the Midwest. This center has not only served the three hundred workers affected by this shutdown, but also an equal number who have been displaced by other cutbacks in the area.

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*Certainly, in the craft-type industries, unions are very much involved in mobility, but that is not what we mean by displacement.

Table 12-1

WORKER READJUSTMENT PROGRAMS (EXAMPLES)

	Type Services Provided	
Auspices	**Assessment**	**Training**
Employer	Bethlehem Steel's Career Continuation Center	Inhouse retraining to facilitate redeployment, e.g., IBM
Joint Employer-Union	Canadian On-Site Labor-Management Committees	Joint programs in the auto industry between UAW and GM and Ford
Union	UAW Assistance Centers	May not exist except for some special programs run by craft unions

With respect to the types of services provided, two categories can be distinguished. The first one involves counseling, referral, and job search—what may be subsumed under the general title of worker assistance and assessment. The second category involves training. I draw a distinction between these two, because the dollars that are involved are quite different. Estimates for the first category of activity range between $200 and $500 per person. With respect to training, the funds needed generally range from $1,000 to $5,000 per person, depending upon the extent and intensity of the training. Given the fact that training only applies to 20 or 30 percent of any client group being served, the total monies spent for assessment and training generally are about equal.

The point of the matrix is to show that there are a variety of approaches that have developed around the country—and the challenge is to determine in what circumstances one approach would be favored over the other.

Let me make a few comments about assistance or assessment—what some people call the "soft" side of working with displaced workers. Some of this process may involve helping workers back off from their high wage expectations and referring them to other counseling agencies. Much of this can be done by peers. A successful approach is to select several workers who are being laid off, put them through some training, and then have them serve as counselors. That they also may be drawing unemployment insurance and so are in the same position as the people they counsel creates considerable credibility. I agree with Ross, however, that providing skill assessment, career counseling, and help with emotional problems requires professionals to become involved in the delivery of services.

An important issue is to define the respective responsibilities of the individuals themselves versus the responsibilities of the institutions that are performing the assistance function. In Massachusetts, we are recommending, under Title III of JTPA, an approach that has been used in Delaware, in which contact with the displaced workers is made somewhere between their seventh and tenth weeks of unemployment.* The rationale is to allow workers initially to sort things out themselves, to take the initiative, and to view the program as supplementary for those people who have not been able to "land on their own feet."

When we come to the subject of training I would like to underscore a distinction made by Smith, Kulik, and Stromsdorfer in another chapter about whether we are discussing retraining for the larger labor market or whether we are referring to retraining that allows workers to continue a career with the existing firm. This latter type of retraining is what is envisioned in the UAW agreements with Ford and General Motors. Specifically, in the case of Ford, money is being used to train crafts personnel in robotics and computers. This type of training is very significant because it enables workers to continue their careers and to move up the career ladder using the new skills and the technologies that are involved in their place of regular employment.

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*The author chairs a task force on planning for Title III of JTPA for the state of Massachusetts.

Employees who participate in internal retraining programs are less likely to become the displaced workers of the future. In this country, the labor movement has generally been supportive of technological change. The whole question of change without disaster depends on having a work force that is willing to adapt, willing to improve productivity, and willing to embrace new methods. Labor holds the delicate balance between the gains and losses from economic change. To the extent that companies are able to give assurances about continuity of employment and provide for the acquisition of skills that will enable people to continue their employment, a positive linkage is established. On the other hand, to the extent that these changes are seen as posing a displacement threat to core workers—as we have witnessed for hundreds of thousands of workers who have become the victims of reindustrialization—we may *not* have a social balance sheet that fosters change and adaptation.

I would like to turn now to the "hard side" of and the vital link in working with displaced workers, namely, job development and the responsibility for making sure that there are openings to which workers can move. This linkage to economic development, as illustrated by Ross in the Johnstown experience, is very important. One of the cases that we studied (Aronson and McKersie 1980) was the closedown of GAF in Binghamtom, New York, where the linkage of economic development activities with programs to help over one thousand workers who were summarily dismissed was a key part of the program. It may turn out that displaced workers do not always move directly into the openings created by economic development. Indeed, often the people who benefit from economic development are younger workers and those with skills most recently acquired through vocational education, the armed services, and the like. However, to the extent that jobs are created in the labor market, opportunities for those who have been displaced are created. Displaced workers may take a downward step in terms of occupational status and income, but at least they will have found employment. This is, in effect, a type of "positive displacement."

Finally, I want to address the important question of how we can encourage more exemplary programs to emerge. What is needed are various incentives or linkages that would make it possible for more union-management groups to take the kinds of initiatives reported in the chapters by Shy and Ross. One idea being discussed is to use the unemployment insurance (UI) system in an innovative fashion. Certainly, to the extent that readjustment programs come into the picture, the drain on UI resources would be less. Perhaps there could be a shifting of resources into company and union programs that are dealing with displaced workers, and away from benefits that would otherwise be paid to these displaced workers.

Another issue is how to ensure that Title III funds coming into the states actually have a chance of being used by local employer and union groups. I am afraid that in many cases the money will go to private industry councils and the existing service delivery organizations, and thus not be made available to organizations wanting to perform specific services for the new client group envisioned in Title III. Unfortunately, there are too many vested interests and too many agencies that need to have their staffs employed. I understand the need to build the strength of private industry councils (PICs), but we also need to find ways for unions, community colleges, and other local institutions to come to a PIC or to a state and say, "We want to perform this kind of service, do you have some matching funds for the services-in-kind that we will be contributing at the local level?" It is important that there be broker-type groups, like the National Alliance of Business and the Human Resource Development Institute of the AFL-CIO, that can perform the function of helping local union and management groups find sources of support.

Another facilitating condition is time, which means that we have to face up to the need to encourage advance notice of plant closings or mass layoffs in order for these local programs for displaced workers to be designed and launched. Canada has a very successful model of labor-management committees, but their successes are in large part due to a period of advance notice that is mandated by law (McKersie and McKersie 1982). For the United States, mandatory notice may not be the answer, but the objective is the same: to achieve a period of time within which such positive and constructive programs as those described by Shy and Ross can be initiated and delivered.

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International Experience

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MARC BENDICK, JR.

Dislocated Workers and Midcareer Retraining in Other Industrial Nations

INTRODUCTION

The United States is by no means unique among market-oriented industrial nations in experiencing rapid structural change in its economy and reemployment problems among dislocated midcareer workers. Shipyard workers in Sweden, textile workers in France, steelworkers in Great Britain, coal miners in Germany, and auto assemblers in Canada have each faced plant closures and employment reductions paralleling those in similar industries in the United States (McKersie and Sengenberger 1983; Organisation for Economic Cooperation and Development 1983). This chapter examines the experiences of three such nations in addressing this problem, drawing from them useful lessons for American initiatives. The three nations, in the order in which they are discussed, are Sweden, Canada, and France.

THE SWEDISH "ACTIVE LABOR MARKET" APPROACH

The Swedish concept of the public role in the labor market is radically different from that in the United States. Their system is a

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government-centered one, with government given prime or exclusive responsibility for many activities that, in the United States, are left to free enterprise. For example, with only a few exceptions, private employment agencies are illegal in Sweden, and Swedish law requires that all job vacancies be listed with the public labor exchange. At the same time, the private sector is very active in guiding the work of the public labor market agency. The so-called "social partners"—business and organized labor—sit as the controlling members of the public labor market boards (AMS) at both the national and local levels. This tradition of cooperative, tripartite decision making among representatives of government, business, and labor has deep historical and social roots in Sweden (Rehn 1982). Tentative and neonascent efforts at developing such arrangements in the United States—such as the private industry councils (PICs) under the Job Training Partnership Act (JTPA)—are not really comparable in terms of the centrality of their role in decision making. The two systems also differ, in that business is given the majority voice in American PICs, whereas organized labor dominates the system in Sweden.

Public sector employment and training activities in Sweden also differ from those in the United States in the sense of being generously funded. The annual budget of the Swedish Labor Market Board amounts to about 3 percent of Sweden's gross national product; the comparable figure in the United States is about one-quarter of 1 percent. In 1981, the Board spent about $450 for each member of the Swedish labor force. The comparable American figure was less than $100.

These expenditures in Sweden cover a broad range of activities, including not only training (in government training centers and on-the-job within private firms), but also job search assistance, relocation allowances, wage subsidies, work aids to encourage employment of the handicapped, "relief work" on public projects, regional economic development initiatives, and even public subsidies to private firms to retain surplus workers rather than laying them off during a recession (e.g., by placing them in company-provided training or by producing to stockpile inventories) (Ginsberg 1983).

For such activities as training, counseling, and job placement assistance, any unemployed person (or person who is in danger of becoming unemployed) is eligible, and the services are utilized by the majority of Swedes seeking work. In the United States, of course, the public sector role in the labor market generally focuses on providing assistance to special needs groups, such as the handicapped or disadvantaged; this focus is achieved both by formal eligibility rules in many programs (e.g., CETA or JTPA) and by the often limited quality of services offered in other cases (e.g., the U.S. Employment Service). In Sweden, publicly provided services dominate the labor market both because they are generally universally available—without income eligibility or other categorized restrictions—and because they are of high quality and recognized value.

One indication of the latter phenomenon at work in Sweden is given by the listing of job vacancies by employers with the public labor exchange. Such listing is mandatory, and about 90 percent of vacancies are estimated to be listed. However, in the period prior to imposition of this legal mandate, some 65 percent of vacancies were already being listed, largely because employers recognized that the public labor exchange was an effective system for finding high-quality employees.

Similar things can be said about occupational skill training provided by Swedish government training centers. These centers are staffed by well-paid, high-quality craftspersons and educators; offer in-depth, long-duration courses providing the same depth of training as precareer students receive in regular vocational schools; utilize up-to-date equipment and state-of-the-art technology; and attract a broad range of trainees, mixing "disadvantaged" trainees with "mainstream" workers and the employed with the unemployed. Small wonder that a training certificate from such institutions is considered an excellent job credential and carries none of the stigma that participation in American programs (such as CETA) often has.

Given the range and quality of existing public labor market institutions just described, special initiatives to serve the victims of economic and technological change require only minor modifications to implement. One typical component of this modification is to move the intake function for reemployment services to the plant site itself, so that enrollment for unemployment benefits, counseling and testing, job search, and other services can be provided immediately and conveniently. As part of the Swedish tradition of tripartite cooperation, employers often provide office space (and sometimes supplementary staffing) for these efforts. A legal requirement of advance notification for any large layoff or plant closure facilitates beginning the reemployment process before unemployment actually begins. Although intake activities are brought to the plant site and adjusted to match the special circumstance of mass layoffs, workers are rapidly channeled through these intake processes into the regular stream of services offered by the Labor Market Board. Thus, for example, dislocated workers undergoing skill retraining will be trained not in a special program for them but in the regular classrooms of ongoing government training programs.

A second modification of the Swedish system for dislocated workers is that special legislation for certain industries provides them with special wage assistance to support their time spent seeking new employment. The Swedish shipyard industry, for example, is undergoing long-term decline. If a shipyard worker who is not yet laid off needs time off during the work week to interview for a new job, then the employer must release that worker for the needed time, and special government funds will pay the worker the regular wage during those hours.

Finally, the Swedish government makes special economic development efforts to recycle the plants and equipment of shrinking firms, with the idea that the new jobs generated will reabsorb some of those losing their employment. In the case of government-owned shipyards, for example, the government has offered unused factory space and equipment either free or at highly reduced prices to small enterprises (e.g., small furniture companies) being founded by former shipyard workers.

However, these special efforts on behalf of those who become unemployed as part of a recognizable dislocation—such as a plant closure—are small compared to the assistance that is available to dislocated workers simply by being unemployed. Therefore, evaluative evidence concerning the effectiveness of the assistance offered specifically to the dislocated is close to nonexistent, and we must rely instead on examinations of the "active labor market" system more generally.

On the positive side, it is clear that the quality of employment and training services offered by the public sector in Sweden is high. Programs are well funded. To work for one of the public employment and training agencies is considered an excellent career. Labor, business, and the voting public are supportive of the activities. Both for training and for placement, the public system is the mainstream institution for the nation. The situation seems to be a self-reinforcing one that comparable American institutions may well envy. Excellence in service breeds public support, and public support provides the resources and the mandate to provide excellent services.

Two cautionary notes are necessary, however, to balance this favorable picture.

First, it is not obvious how much greater the total amount of investment in labor market activities is in the Swedish system, compared to that of the United States. At least part of the Swedish public sector activity may simply be replacing what would otherwise have been purchased by the private sector, either by employers of their employees or by employees themselves. Remember that the Swedish public employment and training system spends about $450 per year per member of the work force, whereas the American public sector spends about $100. The American Society for Training and Development (Carnevale and Goldstein 1983) tells us that the American business sector spends perhaps $30 billion per year in training its employees, which corresponds to about $300 per year for each member of the work force. Private employment agencies in the United States enjoy annual sales of more than $250 million, which adds another few dollars per worker. Totaling public and private expenditures in the United States, we get approximately the same amount per worker as is spent by the public sector in Sweden. Of course, the level of private sector expenditure on training in Sweden is not zero; in some industries such expenditure may be as high as in the United States, or even higher. But these comparisons, while hardly definitive, serve to remind us that a larger governmental role by no means guarantees a higher total level of activity.

Of course, the shifting of responsibility from the private sector to the public sector may still be important if, within an unchanged total, resources are spent on different individuals or for different purposes. In the United States, for example, we know (Bendick and Egan 1982) that the following occurs in the training activities supported by the private firms:

- Employees of large firms get more training than employees of small firms.
- White-collar employees get more training than blue-collar employees.

- The more general education and training a worker has, the more likely the worker is to receive additional training.

- "Disadvantaged" workers tend to be underrepresented in the hiring and training stream.

In the Swedish system, these patterns are overcome, to some extent. Extensive counseling efforts are expended to encourage participation in training by less-educated, blue-collar workers, and special pedagogical techniques are used to make training situations more comfortable for adults (Bendick 1983d). But the Swedes are candid in admitting that not all such patterns are overcome, even in their socialized system. Many of the American dislocated workers experiencing the most reemployment difficulties are precisely those types of individuals who, even in the Swedish system, have been the most difficult to reach—blue-collar maufacturing workers with limited general education and low skills (Bendick 1983a; Bendick and Devine 1981; Bendick and Egan 1982). Therefore, although many of the specific techniques the Swedes employ to reach such workers may be usefully emulated in the United States (Bendick 1984), we unfortunately cannot find, even in the Swedish experience, any full answer to the problems of providing education and training for this difficult-to-serve population.

A second and related cautionary note should be sounded about the payoffs of the services provided by the Swedish system, particularly for skill retraining. There is a tendency in the Swedish system to place in occupational training any unemployed worker who cannot be immediately reemployed, in some cases regardless of whether or not the new skills to be acquired will significantly alter the worker's productivity or employability. For example, on a recent visit to Sweden, I observed a large number of workers receiving training as welders. When I remarked that this surprised me because I believed welding to be an occupation for which demand was declining, I was given two explanations for the activity. First, it was said to be preferable to have unemployed workers actively receiving training than to have them sitting idly at home while unemployed—even if the training was not very useful in the future employment market. Second, it was said that if the work force in general possesses many diverse skills, then the structure of occupations will be influenced in the direction of maintaining "job quality." For example, if all building maintenance workers know how to weld, then their jobs will continue to be defined as jobs requiring this special skill. Their jobs will not be reduced to routine activities with lower skill requirements, with welding farmed out to a specialist. Thus, the motivation to invest in retraining the unemployed in Sweden seems often to be sociological or psychological in nature, rather than economic; the goals frequently are to support the work ethic or to influence the nature of work, rather than to enhance an individual's immediate employability or productivity.

In saying that the objectives of such training activities are psychological or sociological rather than economic, this does not suggest that they are less important or less legitimate. However, much of the Swedish investment in training and other "micro" labor market policies may serve such ends and should, therefore, be examined cautiously as a model for an effective, immediate-payoff reemployment strategy for American dislocated workers.

More generally, the Swedish system has been criticized for excessive reliance on microeconomic labor market programs to address unemployment problems, to the neglect of macroeconomic approaches. To place unemployed workers in training or in "relief works" (the Swedish term for public service employment or job-oriented public works) may reduce the measured unemployment rate, but it does so largely by disguising unemployment rather than actually reducing it. At least one researcher has estimated that Sweden could reduce its "real" unemployment rate by shifting some of its emphasis away from microeconomic policies and toward macroeconomic initiatives (Johannesson and Persson-Tanimura 1978; Johannesson and Schmidt 1982).

THE CANADIAN MANPOWER CONSULTATIVE SERVICE

The concern about the proper balance between macroeconomic and microeconomic initiatives is a central one to American policy debate about dislocated workers. The traditional role assigned to government employment and training programs in the United States has been to promote the labor market opportunities of those who would remain "structurally unemployed" (or underemployed) even in a nonrecessionary national economy. Key questions in discussions about dislocated workers, therefore, are: To what extent will workers currently on long-term or permanent layoff in the American economy be readily reabsorbed by an economy recovering from recession? How many among the millions of workers laid off from such traditional manufacturing industries as automobiles, steel, rubber, glass, and textiles are likely to return to their old jobs or to very similar manufacturing jobs not requiring major skill retraining or career transitions to enter?

Opinions vary a great deal on this subject (Ayres and Miller 1983; Bendick 1983a, 1983c; Bendick and Devine 1981; Bluestone and Harrison 1982; Choate 1982; Hunt and Hunt 1983; Levin and Rumberger 1983; Sawhill 1983; Sheingold 1982), and no definitive answer is possible until such an economic recovery is actually experienced. However, even the smallest estimates of the magnitude of the problem (Bendick 1983a) agree with the larger ones in saying that there is one pool of dislocated workers who will experience significant reemployment difficulties even in nonrecessionary times. These are workers unemployed as part of mass layoffs or plant shutdowns in communities already suffering very high levels of general unemployment or long-term decline. When an auto plant closes in Flint or Detroit, or a steel mill shuts down in Youngstown or Buffalo, those laid-off employees face serious structural reemployment difficulties in their "communities in crisis."

For a model of how effective government assistance can be delivered to such workers and their communities, there is an innovative program in Canada called the Canadian Manpower Consultative Service (MCS). This agency of the Canadian national government exists specifically to deliver temporary worker adjustment assistance to communities undergoing economic crisis. The MCS operations may be described as follows (Barth 1982; Barth and Reisner 1981; Batt 1983; Bendick 1983a):

- When a plant shutdown or mass layoff situation arises, the MCS becomes involved immediately and temporarily (e.g.. for a six-month to twelve-month period). Thus, it supplements established local labor market institutions at a time of peak demand.

- MSC's major role is that of coordinating, facilitating, and encouraging the mobilization of local resources, primarily those of local employers and local unions, into a committee. It brings in a modest amount of matching funds for administrative expenses and the services of a case officer, but local government and private resources must also be contributed.

- All workers involved in the job reduction are contacted to see if employment assistance is desired. (Typically, 70 percent respond affirmatively.) Each person expressing interest is then interviewed individually to determine the most appropriate form of assistance.

- Those workers who need or desire career counseling, training in job search skills, retraining, or relocation assistance are referred to the Canadian equivalent of the U.S. Employment Service for such assistance.

- The major form of assistance provided to most workers—some 64 percent of all cases—is direct placement assistance. Here, the key role that the MCS and local committee play is to bring into the open jobs in the "hidden labor market" (i.e., those that are typically filled by word of mouth).

A system akin to the MCS in operation in the United States would copy some aspects of the Canadian approach and modify others. For one thing, the U.S. Employment Service is not generally equipped to provide extensive career counseling or training in job search skills. Therefore, an MCS-like agency would have to bring in the necessary skills and resources. Second, an MCS-like intervention would be triggered not only by a mass layoff or plant closing but also by long-term regional decline or persistent unemployment. Third, these services would be open to all persons in the labor force in a locale, not just those directly affected by a layoff; this is because all job seekers in a labor market have increased difficulty finding jobs following a layoff due to the increased competition from those laid off. Along with these modifications, however, other key aspects of the MCS should be preserved, including the role as a supplementer of existing services on a short-term basis, the tailoring of services to the needs of each individual worker, the nonbureaucratic style of operation, and the emphasis on mobilizing and enhancing local resources.

In the operation of Canada's MCS, as in the operation of the Swedish Labor Market Board, one essential element of the responsiveness of the system to the needs of dislocated workers is a mandatory advance notice of mass layoffs or plant closures. Such notice allows the public agency to begin to serve those facing unemployment prior to their actually being laid off. This early provision of services appears to be especially important psychologically, in that it reaches workers very soon after the stress of the dismissal, providing counseling, support, and a future orientation to combat the anger, frustration, and bitterness that are typical reactions (Bendick 1983c). Contacting workers is also significantly easier before their layoff than after. Finally, early intervention is particularly important in systems, such as the MCS, that rely on local employers and unions to provide at least some of the resources for worker reemployment efforts. At the early stages of the process, companies and unions have both more interest and more resources.

Legal requirements to provide advance layoff notice have been extensively discussed in the United States in "plant-closing legislation" pending in a number of states and enacted in two states. Such requirements of notice are sometimes also included in union collective bargaining agreements (Bendick 1981b). The important point in other nations' experience with advance notification is that it immediately triggers a significant amount of public activity. To impose a requirement for advance notification without also creating some system to respond to the layoff or closure would be to achieve a largely pyrrhic victory. It would also be difficult to achieve politically because the presence of government services to aid their workers provides a partial quid pro quo to firms for the disadvantages of having to reveal their business intentions.

A further central aspect of the MCS approach is that economic development—the promotion of existing local employers or the seeking of immigrant companies—is a major part of its portfolio of approaches to aiding communities. That is, if local circumstances dictate, MCS expertise and resources can be targeted on the creation of jobs (demand for workers), not just on enhancing the supply of workers (through placement or training). In the American experience, the economic development function and the worker development functions are all too often handled by separate state agencies, and typically in an uncoordinated fashion. The MCS pairing of the two approaches to aid communities in crisis is a useful reminder of the complementarity of the two types of activities.

The MCS also offers an interesting echo of a theme in the Swedish experience—that of serving the needs of distressed or disadvantaged individuals through the same agency that serves the "mainstream" work force. In the MCS case, this occurs through a mandate for the agency to provide its assistance not only to communities experiencing labor surpluses from mass layoffs and plant closures, but also to communities enjoying economic expansion that happen to be labor-short. Such a dual mandate is efficient in providing for potential pairing of surplus and shortage areas and in drawing upon similar agency capabilities. It also prevents the MCS from becoming

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stigmatized as being exclusively associated with "unattractive" communities and hard-to-employ workers.

Finally, it should be noted that in the MCS experience, many—certainly at least a majority—dislocated workers are assisted with job search and placement assistance rather than with skill retraining. This has been the experience both of the Canadian MCS (for which 64 percent of service recipients receive only search and placement assistance) and of such American programs as the Downriver Community Conference Economic Readjustment Program (where some 85 percent of service recipients receive only job search assistance). The reasons for this emphasis are numerous, but may be summarized in the assertion that most workers will eventually be reemployed in jobs requiring a skill level not particularly higher or different from what they utilized in their previous jobs. This will be true both because the skill composition of job vacancies is moving upward only slowly and because many dislocated workers are not ideal candidates for training (Bendick 1981a, 1983c; Bendick and Devine 1981; Levin and Rumberger 1983). The Canadian experience confirms much of the American experience and suggests that reemploying dislocated workers is predominantly a matter of placement rather than of retraining.

THE FRENCH "OBLIGATION TO SPEND" ON TRAINING

The fact that, for most dislocated workers, retraining is not the path to reemployment should not be interpreted to mean that midcareer retraining is an unimportant need in the labor force of a modern industrial nation. There is constant and accelerating change in the composition of output in the American economy and in the technology with which it is produced. These changes, in turn, dictate that the occupational mix in the economy change constantly, and also that the skills involved within each occupation also change. However, it is important to recognize that these changes occur gradually, that most of the new skills required in the evolution of jobs are acquired incrementally, and that most retraining of midcareer workers occurs among the employed, not the unemployed. A high level of midcareer retraining among the employed is probably one of the best defenses an economy can erect against the abrupt dislocation of its work force.

Earlier in this chapter, an estimate of $30 billion per year was cited as the amount that American private employers currently expend on training their employees. Large as this number is, there is reason to believe that it is still less than the socially optimal level of investment for the American economy. Due to the presence of what economists refer to as "private market failures," the American private sector acting alone persistently underinvests in the skills needed by its own work force (Bendick 1983a, 1983c; Bendick and Egan 1982; Stoikov 1975). These market failures hamper both investment by employers in training their current employees and employees' investment in training themselves.

In the case of employers, the decision to invest in worker training, as with any other investment decision, depends largely on the expected return from the investment. When workers are free to move from company to company, it is risky for an employer to spend thousands of dollars to give a worker a skill in great demand, because that firm's competitor will try to hire that worker away the minute the training is complete. When all employers together react to this fact, a situation arises in which everyone needs a skilled labor pool but nobody will pay for it.

As for employees, we do see a great deal of self-investment by workers. When a high school graduate goes to college, or when an individual takes a job despite a low wage "because it is good experience," that is precisely what is occurring. But in an era of rapid economic and technological change, more and more workers are faced with the need to make a major investment in their own retraining at midcareer. Such bouts of midcareer formal training are difficult for workers to finance. First, they require quite a cash flow, both to pay for the instruction itself and to support the worker and his or her family while the training is proceeding. This can be a particular problem if the worker wishes to undertake retraining when unemployed, when cash flow is tightest, and when—in the current American system—both the Job Training Partnership Act and (in most states) the unemployment insurance program will not provide income maintenance during training. Second, because formal midcareer training is very expensive, individuals may be reluctant to undertake such a sizable investment when there is no certainty that it will pay off. And finally, there is a problem of information: Individuals may not be well enough informed about trends in the labor market to pick the right field in which to be trained.

The gap between what training the private sector is currently providing and the ever-increasing training needs of society may perhaps be effectively addressed in a way modeled on an aspect of

French public policy Since 1971, the French have operated a national system for financing worker training that creates an effective public-private partnership to address exactly the problems outlined. The key element of the system is what the French refer to as an "obligation to spend," enforced by a payroll tax if that obligation is not met.

The French Further Vocational Training System was established by an agreement between employers' associations and trade unions concluded in 1970 and reinforced by laws in 1971 and 1976 (Bendick and Egan 1982; Legave and Vignaud 1979). As a central feature of this system, every employer of ten or more employees must make an annual contribution to the financing of training courses. Contributions are calculated as a percentage of the firm's total wage bill, with the percentage specified annually by the government in its yearly finance act (currently it is set at 1.1 percent).

Employers may satisfy this contribution requirement in any of the several following ways:

- By financing internal training programs for their own workers, either conducting the training themselves or paying for the services of an outside training establishment through a multiyear agreement.
- By making a financial contribution to an industrywide training insurance fund, established by agreements between employers or employer associations and trade unions. These funds may be national or local.
- By making a financial contribution to programs for unemployed persons in training centers approved by the government.
- By paying their contribution into the government treasury.

Thus, if the firm chooses to train its own workers and spends at least the 1.1 percent minimum, then its obligations are discharged. Or the firm may meet the requirement by participating in and financially supporting an industrywide training fund that serves its own employees. But the firm may as well spend on one of these forms of training, because if it fails to meet its obligations to spend, then the unspent balance of the 1.1 percent is due to the government as a payroll tax. In practice, the majority of funds are allocated to the first of these methods, particularly among large firms; about 8 percent of funds go to the second method, primarily among small and medium-sized firms in industries with strong trade unions. Approximately one hundred twenty thousand firms and over 10 billion French francs are involved each year; typically, one person in eight in the labor force receives some training during any year, with an average of fifty-five hours of training per trainee. Revenues may be used to finance trainees' wages during training as well as the out-of-pocket costs of the training itself.

Workers may take advantage of training opportunities under this fund for a number of purposes, including "refresher" courses in their current occupations and advancement to higher-skill occupations. The funds may be called upon for "adaptation" courses, in which unemployed workers switch to new fields of work, or for "preventive" courses, in which currently employed workers convert to new occupations created by technological change. Thus, the fund becomes a valuable device both to workers (in assuring them of continued employment despite economic change) and to employers (by providing a trained labor force for emerging labor force needs).

Because the French system provides wage replacement benefits and tuition payments to workers, it tends to overcome the "cash flow" and "risk aversion" reasons that may prevent workers from investing in their own training. By obligating employers to expend at least a minimum level of effort on training, it addresses their reluctance to invest in training for transferable skills ("general human capital") whose benefits they may not receive. By increasing the amount of training provided to workers currently employed, it emphasizes prevention rather than cure. At the same time, by promoting the provision of training to workers by current employers, it reduces the situation of workers' undergoing training "on speculation" in favor of training for job needs already planned for within a firm; this reduces the information and decision-making burdens on those workers, particularly blue-collar workers, who are used to a system of adapting to employers' needs and who have relatively little facility with career self-planning. Thus, such an approach may be seen primarily as addressing basic "market failures" in the retraining market, rather than the more ad hoc needs of dislocated workers, per se.

One of the advantages of such an approach is its flexibility and decentralization of decision making—much in the spirit of the Job Training Partnership Act. Decisions are made by employers (with a mandatory consultation process with unions, in the case of larger firms), in light of their firms' own needs. No vast amounts of money flow into and out of the public treasury, and no government central plans or decisions constrain what a firm may do. Yet each firm has a profit incentive to use its training resources wisely, and all firms together are required to maintain a high level of sustained investment in the French work force.

The experience in France with this approach has been highly favorable in terms of increasing the total volume of resources spent on training within firms. Particularly among smaller firms—those most subject to the tendency to underinvest (Schiller 1983)—the level of expenditures on training has increased steadily since the start of the system. Among firms of between ten and nineteen employees, for example, training expenditures as a proportion of the wage bill went from 0.47 percent in 1972 to 0.95 percent in 1980. The availability of an industrywide training fund has been particularly useful in making high-quality, professionally organized training available to firms too small to run their own in-house training efficiently.

One difficulty frequently observed in the French system is that, although the total amount of investment in training has increased, a disproportionate amount continues to be spent on white-collar, professional, and managerial employees, rather than on the lower-skilled, blue-collar workers who, in the United States, experience the greatest dislocation problems. "Management development seminars" at pleasant country resorts or English language instruction for upper-level managers are typical examples of such expenditures, which are off-target in terms of dislocation prevention. They are perhaps more appropriately described as employment perquisites for higher-level employees than hard-core skill updating. Such difficulties could be overcome fairly easily in the United States context through program regulations specifying targeting. It appears from the French experience that such controls would be necessary.

With that important modification, if the United States were to adopt a similar "employer obligation to spend" approach, we would move a long way toward addressing the midcareer retraining problems, of which dislocated workers are the visible and important tip of the iceberg. Such a proposal is by no means a political absurdity. The leadership elements of the business community should be as enthusiastic in the United States as they are in France. Most major American corporations already invest heavily in worker training. Their obligations under this system would already be discharged by their current level of activity, whereas their less active competitors (who have been stealing their staff) would be forced to carry their fair share. At the same time, the leaders of labor should be enthusiastic about a system that ensures a sustained level of resources to make workers participants in and beneficiaries of technological and other economic change, not victims of it. A higher level of general labor force training would prevent a good deal of worker dislocation by providing in-house retraining as a substitute for dislocation, and currently dislocated workers would benefit from the new entry-level employment slots that would be created as current employees move upward via training. Taxpayers stand to gain from reduced unemployment insurance and public assistance claims, and we all stand to gain from enhanced national productivity and international competitiveness.

Such a system could be adopted in the United States either directly or through one of several incremental strategies. One of the incremental strategies would involve reprogramming, for training purposes, some of the payroll tax fund already collected for unemployment insurance. The state of California has taken a step in this direction by reducing its payroll tax for unemployment insurance by one-tenth of 1 percent and creating a new payroll tax in the same amount for worker retraining and other adjustment programs. Another incremental approach would be to impose this obligation to train initially on the defense industry, where government purchases already create both a prosperous growth period and a basis for federal intervention. Congressperson St. Germain, chairperson of the House Banking Committee, recently introduced legislation to this effect in discussions of the proposed Defense Industrial Base Revitalization Act.

LESSONS FOR THE AMERICAN EMPLOYMENT AND TRAINING SYSTEM

This chapter has provided only a highly selective review of the dislocated-worker activities of market-oriented industrialized nations outside the United States. Other nations besides the three examined here have their own initiatives, and the three nations discussed offer programs other than those discussed here (Wolfe 1979). Nevertheless, the three models were selected because they are among the most provocative for policy discussions in the United States.

Of the various insights suggested by the experiences of Sweden, Canada, and France, three are of particular interest and potential utility:

- The experiences of all three nations suggest that *it is a mistake to equate midcareer retraining and dislocated worker reemployment.* Canada correctly emphasizes placement and job development over training for the dislocated; France correctly emphasizes training for the employed rather than the unemployed; and Sweden probably incorrectly overinvests in retraining the unemployed.

- All three nations in various ways *deemphasize the uniqueness of the employment problems of dislocated workers and tend to address them through labor market institutions serving the labor force more generally.* This is a different direction from that symbolized by Title III of the Job Training Partnership Act. which defines dislocated workers as a distinct population and establishes a separate (and stigmatizing) program for them.

- Each of the three nations, in a different way, seeks to *combine government, business, and labor resources and roles in addressing the dislocated worker problem, rather than devising a "government-only" approach.*

The degree of similarity of social, cultural, and institutional backgrounds makes Canada's program the most likely base for transferring a program idea relatively intact to the United States. France follows somewhat distantly in second place, and Sweden follows very distantly in third place. Yet, at a more abstract level than the direct imitation of specific programs, each of the nations has something to teach us. These three general themes may capture some of those lessons.

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W. DIAZ

International Experiences: Reactor Comments

Marc Bendick's chapter has provided us with three exemplary systems for dealing with displaced workers: those of Sweden, Canada, and France.

The *Swedish "active labor market" model* is a large, socialized, governmental system, dominated by organized labor, well funded, and providing a wide range of high-quality services (including training, relocation allowances, and wage subsidies) as well as universal eligibility. Services to dislocated workers are provided within the government's overall response to unemployment but involve special modifications:

- Intake services are moved into the plant.
- In certain industries, wage assistance is provided while job seeking takes place.
- Economic development efforts are made to recycle plants in shrinking industries to create jobs.

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The *Canadian Manpower Consultative Services (MCS)* provides fast relief to communities in crisis. It coordinates and supplements local services to workers, acts as a referral mechanism to other services, and also provides direct placement services. Further, it has a local economic development function. As with the Swedish Labor Market Board, it also involves mandatory advance notice of imminent plant closings.

The *French "Obligation to Spend" system* mandates employer investment in worker retraining at the level of 1.1 percent of the firms' total wage bill. Companies may conduct their own training, contribute to an industrywide training insurance fund, contribute to programs for unemployed persons in government training centers, or pay their share as a tax into the government treasury. Typically, most use the first option and provide their own training.

In its review of these systems, the chapter is provocative and interesting, but it only begins to suggest the relevance of these experiences for the United States. Two issues are largely unaddressed. The first is the *complexity/comparability* issue. The displaced worker problem has several dimensions. It has a short-term and long-term dimension. For example, services need to be responsive during a plant closing, after the closing, and after the exhaustion of unemployment insurance benefits, because people have different needs at these different stages. There is also a contextual element. For example, a plant closing in Detroit may engender an emphasis on relocation, whereas one in Connecticut may lead to an emphasis on job search or training. Then, of course, individuals have diverse needs, and any program or policy mechanism designed to meet the displaced worker problem should have the flexibility to respond to such diversity. In addition, employers, local governments, unions, and programs all have different roles to play.

Therefore, while the descriptions of policy approaches in other countries provided in Bendick's chapter are instructive and intriguing, it is difficult to offer a prognosis for their effectiveness in the United States without some better understanding of the settings and needs to which these mechanisms have been applied. As a start to help make that connection, it would have been helpful had the chapter included a description of the existing array of services available to displaced workers in the United States, as well as more information on the issues and problems faced by this country and the others described.

The second and related issue is the question of *effectiveness*. Though their features are described, the chapter offers little indication (possibly due to lack of available data) of how well these foreign programs work, either in terms of making successful placements or (in the case of France) preventing worker dislocation and enhancing the skills of the work force.

In this regard, Bendick provides some "cautionary notes" that are disquieting. In *Sweden*, the system has trouble reaching the more difficult-to-serve workers; also, it has a tendency toward "make-work" training, which may be important psychologically to the worker but disguises the country's true unemployment situation.

In *France*, a disproportionate amount of money goes to white-collar, professional employees for management development seminars, or to other activities that are essentially employment perquisites for higher-level employees. Bendick suggests that if such a system were used in the United States, this problem could be overcome easily by regulations for targeting, but this is more easily said than done, given definitional problems regarding blue-collar versus white-collar employment, and other enforcement obstacles. Unions may be more effective at policing the use of training, should the French system be adopted here. More generally, I was left wondering how much of the French system involves "going through the motions" with little in the way of substantive results.

In Bendick's discussion of the *Canadian* system, there are no cautionary notes about possible problems, which leaves me wondering, once again, whether it is too good to be true. With that caveat, the Canadian experience can be regarded as relevant and appealing—appealing because it guarantees a response to workers in some coordinated way. In contrast, the American system is rather catch-as-catch-can. At least in Canada, the MCS approach seems to guarantee that every worker is contacted about available services. Moreover, it is a tremendous advantage to have an early warning notification requirement for plant closings, as in Canada and Sweden, which is what ought to be required in any humane society, along with an MCS-like mechanism to step in quickly.

In the Canadian model, Bendick argues, job search and job placement are the critical services for those dislocated in communities in crises. He may well be right. However, it would be worth knowing if and how the Canadian system taps into the so-called hidden job market, and how successful they are in doing so.

It is also important to bear in mind in considering the applicability of the Canadian model to the United States, that structural unemployment is a relative, catch-all term and that it has a cyclical component, too. In effect, as the economy improves and employers move down the queue of the unemployed in their hiring, those who remain unemployed are most often the minority youths, female heads of households, and other long-term unemployed individuals traditionally served by our existing system of programs. The services needed by these individuals may be different from those needed by the more employable in the displaced worker pool, such as job placement. To the degree that the Canadian system has the flexibility to provide and coordinate a variety of services tailored to individual needs, and does provide services from the least employable to the most, it seems particularly appealing.

Returning to the Swedish system, the differences in political culture between a country like the United States, which emphasizes the role of private markets in the allocation of labor, and Sweden, which has a much more socialized scheme, make it difficult to see the relevance of their system to ours. It would be interesting, however, to compare the two systems' available services to determine where there are gaps, where there are matches, and where increased linkages could help the United States to develop a better-articulated system of service. For example, the provision of intake services at the plant site in the Swedish model is appealing, but employer receptivity to this notion is questionable in the United States and would also require an advance notification system. In addition, the Swedish idea of plant recycling is intriguing. Here may be a way to tie recycling to the American notion of enterprise zones.

The French idea of a retraining account, which has been proposed periodically in the United States, ought to be included in American policies. However, given the current trend in fiscal policy toward tax reduction and an unburdening of the private sector, it seems clear that an additional tax on industry or a requirement for training is politically unlikely. Nevertheless, like the Canadian approach, the French approach is flexible and decentralized, an appealing feature for the United States, given the greater diversity of need and situation factors likely to be found here. Therefore, one is tempted to suggest, as Bendick does, that this approach could be introduced incrementally, as it has been in California, by substituting a tax for worker retraining or adjustment for some part of the payroll tax for unemployment insurance. Given the political mood of the country and its economic situation, in all likelihood some quid pro quo would still be required of workers in such a system, whereby one benefit would be reduced to pay for another. For example, long-term unemployment benefits might be reduced as workers draw on their accounts for training.

SOME FINAL THOUGHTS

The issue of targeting particular programs to particular classes in need, such as displaced workers, versus a general approach to labor force services, as occurs in Sweden, is a debate that arises in the United States concerning other program areas, such as income maintenance, where Aid to Families with Dependent Children (AFDC), for example, differs from Supplemental Security Income (SSI) for the disabled and aged. In considering the applicability of the general approach, the question arises as to whether the institutions or mechanisms that have traditionally served the disadvantaged (e.g., CETA) are the right ones to meet the needs of displaced workers. It may be that community-based agencies are better equipped and should continue to meet the needs of the traditionally disadvantaged, while the U.S. Employment Service and community colleges are best for aiding displaced workers. In principle, we usually draw away from the idea of systems segregated by class, but practical consideration must be given to whether displaced or disadvantaged workers will gain or lose by being served through the same agencies.

Nothing was said in the chapter about relocation or the degree to which it is utilized in other foreign experiences, particularly in Sweden and Canada. It would be helpful to know what lessons could be learned from their experiences, if any, for relocation strategies in the United States.

One aspect of the displaced worker problem may be more important and perplexing than many other aspects of the issue. Uhalde's chapter refers to it when it suggests that a significant portion of displaced workers may have to take jobs that pay significantly less than their previous jobs. Economists refer to this as a reservation or premium wage problem, but it may be better characterized as a subsistence or quality-of-life wage problem. Whether it is possible eventually to restore previous wage levels in real terms, individually or societally, is a complicated question. But the problem of lower wages for the displaced in their new employment is likely to create a great deal of psychological, social, and economic hardship. It would be useful to know if or how this problem is handled in programs elsewhere.

The ultimate answer to the displaced worker problem probably lies in macrosolutions that loosen tight monetary policies, reduce high interest rates, and deflate an overvalued dollar, so that our goods can be competitively priced in the international marketplace. This also means that employers will have to become better managers and workers more productive to meet the challenge of international competition.

In the meantime, Bendick's chapter does an excellent job of encouraging us to learn more about different foreign approaches to the problems of displacement we face today. Unfortunately, the chapter does not provide enough of a map to lead us beyond the current array of diverse, unrelated American policy responses toward the better-articulated responses of the French, Swedes, and Canadians. Bendick does provide several important potential additions to the portfolio of services, such as mandated early warning services on the plant premises, a special flexible response team (MCS), and a job retraining account. The difficult tasks remain to determine how these can be used within the American system, and somehow to affect a better linkage of services.

Research and Evaluation

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Using Unemployment Insurance Data to Predict Economic Hardship from Displacement

INTRODUCTION

The urgency of developing a practical approach for predicting economic hardship resulting from employment dislocation stems from requirements in Title III of the Job Training Partnership Act (JTPA) of 1982, which place substantial eligibility determination and service selection responsibilities on the individual states. This chapter examines the use of routinely available administrative data collected by state employment security agencies (SESAs) for Unemployment Insurance (UI) management purposes in order to predict economic hardship resulting from employment displacement.

The chapter is organized in three parts. First, conceptual issues are explored, focusing on a practical definition of displacement that can be adopted for administrative purposes. This is followed by an overview of results achieved in using UI administrative data to estimate models of economic hardship. Finally, conclusions about the usefulness of UI administrative data for this purpose are stated, and recommendations for policy applications are offered. Although the chapter addresses information needs, it does not attempt to offer new insights about how to ameliorate economic hardship once it has been reliably predicted to result from employment displacement.

CONCEPTUAL ISSUES IN DEFINING WORKER DISPLACEMENT

Assessing the actual and potential responsiveness of education and training institutions to the needs of displaced workers asumes prior identification of those who have been displaced. So, too, does determining what kinds of information and options are needed to ameliorate the hardships of employment displacement.

This section of the chapter demonstrates how complex this identification step is, both with respect to its consequences for subsequent selection of intervention approaches and because predicted hardship is so elusive. The goal is to offer a thorough, yet practical, guide to questions that must be addresed to ensure an efficient and equitable use of resources that are to be devoted to alleviating the untoward consequences of employment displacement.

First, a few observations are made about the unevenness of economic activity, in both cross-sectional and time-series manifestations. This is followed by brief reference to different theories about labor market institutions and human behavior, because the (explicit or implicit) choice of theory predetermines the range of intervention options to be considered. Third, some of the practical difficulties encountered in attempting to state a simple criterion for economic hardship are explored. And finally, conclusions are stated about the immediate applicability of these definitional issues for guiding administrative actions.

The Unevenness of Economic Events

There is no need to review here the historical record of recurring seasonal and cyclical fluctuations in economic activity. Nor is it necessary to join the debate about the severity of structural transformations, which continually recast the structural features of the nation's economy. What is not as well known is the quite extraordinary extent of simultaneous births and deaths of enterprises when considered at the most detailed levels of geographic and industrial classification. Subsequent sections of the chapter show that simultaneous births and deaths of employing organizations raise important questions about the employee consequences of this characteristic of labor market flows. The guiding question of that inquiry must be: What criteria should be introduced to define a sufficient degree of mismatch between the "qualifications" of those whose jobs have been eliminated and the requirements that are imposed by the newly established unit, so that a reliable prediction of economic hardship resulting from the displacement is possible?

Presumably, two characteristics of job elimination must be considered as a basis for external intervention (at least, for JTPA Title III purposes):

- Permanence of job loss

- Concentration of this occurrence

Unfortunately, those two concepts introduce additional complexities. According to whom should the "permanence of job elimination" be defined—the employing establishment, or the incumbent who has been terminated? In addition, to what should "concentration of the occurrence" be applied—geographic location, industrial affiliation, or occupational classification? In other words, among the important issues that must be resolved to define eligibility priorities are the following:

- How does plant closure differ from less extreme reductions in force, from the perspective of individual terminated employee distress?

- How may permanent job elimination be distinguished from periodic adjustments made on the basis of seasonal, cyclical, or market-specific fluctuations in enterprise fortunes?

- What routinely identifiable attributes of the concentration of job elimination should be defined?

- What cross-sectional factors should be considered in evaluating the severity of job elimination?

- What time-series forces should be considered in assessing the individual hardship that is predicted to accompany permanent job elimination?

Conceptual Differences in Predicting Hardship

Presumably, concentrated, permanent job elimination warrants external intervention on the affected incumbents' behalf because their probability of returning to productive activity without such assistance is judged to fall below a socially tolerable threshold. But why is this belief held?

One explanation stresses the terminated workers' deficiencies. They live in the wrong place (i.e., where limited economic opportunity is found). They embody skills that are obsolete or that offer little basis for transformation into viable skills. They exhibit insufficient educational qualifications to pursue a routine path to productive renewal. Or they express an unwillingness to adjust their productive activity/compensation requirements sufficiently to be absorbed into a new employment setting. Here, employers are held blameless; the victims of displacement have simply been unlucky. Indeed, they are frequently charged with having contributed to their own predicament, through collective actions that rendered their former employers noncompetitive.

A very different explanation focuses on employer actions and inaction as the primary (if not sole) determinants of widespread displacement. In effect, employers fail to foresee the timing and sources of competitive pressure that have arisen both at home and abroad. They make decisions about the location and composition of production that give insufficient consideration to work force potential. Capital investment and location incentives are offered to firms without due regard to the human consequences of these actions. Too little attention is paid to formal and informal barriers to reemployment. As a result, it is charged, there is an unfair shifting of the burden of management's failures onto vulnerable workers.

Uncritical acceptance of either of these extreme characterizations of who is to blame sets in motion mutually exclusive scenarios of ameliorative actions. (This point is addressed again in the concluding section.) Regardless of which explanatory approach appeals to the reader, however, two questions must be answered:

- Who is to be defined as an actual (or potential) victim of concentrated permanent job elimination?
- What remedial promise is foreseen for these unfortunate casualties of economic events?

Are all individuals in an isolated "depressed" community exposed to equal hardship because of the elimination of their jobs? No. Are all incumbents in a declining industry equally vulnerable to job loss? Obviously not. For those who do not have internal transfer rights, is a comparable competitive opportunity foreseen? It is unlikely. In the face of unacceptable reemployment prospects without public-sector intervention, is remedial promise uniform across substate locations? No.

What must be achieved, then, is a practical way to separate the deserving from the undeserving. What evidence arises when more than one person's job is eliminated at the same time and in the same place that signals greater individual vulnerability? How large must the effects be to warrant external attention? How precisely, are the terms "same time" and "same place" to be defined?

The human capital approach emphasizes differences in individual adaptability to production requirements. Critics of this approach focus on historical contradictions to this alleged "inflexibility" story. Much of the continuing debate between the alternative points of view is based on ambiguities about causal relationships among economic and social forces. In practical terms, three questions must be answered:

- What *can* people do (i.e., what is the range of objective potential)?
- What *will* people do (i.e., what are the worker-imposed limits on what can be done that narrow the relevant range of alternatives)?
- What *should* people be expected to do (i.e., what range of alternatives is deemed appropriate by a third-party observer)?

The answer to the first question—what can people do—is subject to change over time, and is also likely to be affected by the nature of the specific production setting at any given point in time. Similarly, what people will do depends at least in part, upon their awareness of alternatives, both now and in the future. Finally, third-party judgments about what a person should be willing to do may fall within a narrower or wider range of options than the full band of "acceptable" alternatives encompassed in what an individual will do. This means that third-party observers may be either too protective or may consider the person unworthy of assistance. It is important to recognize that third-party "protectiveness" may limit an individual's successful adaptation, if the individual has a "better" understanding of future prospects.

It should be apparent by now that decisions about the establishment of eligibility criteria for displaced worker status are influenced by the decision makers' opinions about the causes and consequences of permanent job elimination.

The Eligibility Determination Decision

Three criteria for eligibility determination have been stated in the preceding section:

- Concentration of the reduction in force
- Permanence of this reduction
- Job elimination

Practical problems that are likely to be encountered in applying these criteria in routine administrative procedures are explored in the following subsections.

Concentration

There are at least four important criteria for defining concentration:

- Reporting tax unit, firm, establishment within a multiestablishment enterprise, product line, or the like.
- Geographic boundaries (e.g., political jursidictions, "labor market area," and so forth)
- Timing (i.e., "one-shot" versus "phased" reductions in force)
- Occupational composition

These are obviously not mutually exclusive criteria for determining the relative amount of hardship associated with job loss. Since relative hardship is primarily associated with reemployment prospects, it is in the context of likelihood of reemployment that each of the criteria must be considered.

How are necessary data reported, and how does this reporting unit correspond to relative reemployment prospects? What is important is whether the data permit separation of those who do have relatively good prospects from those who do not. Within an organization, the key issue is transfer rights. Existing data do not allow a routine determination of the reemployment probability associated with reported fluctuations in organizational employment.

Immobility and local absorption capacity are the major factors that make geographic concentration an important identification criterion. The general unevenness of enterprise fortunes introduces a special difficulty to interpretations of geographic concentrations of reductions in force. It is possible (and in many cases likely) that the terminees from one organization will be absorbed by another local enterprise. Generalization is difficult at this point. "Internal labor market" characteristics that bar lateral mobility between organizations, even when the requisite skills are present, come into play.

How does a phased reduction in force differ from a one-shot reduction? In terms of the ultimate number of positions affected, there is no difference, if the plan is carried out without modification (which is frequently not the case). What is likely to differ is the sequence of termination and the associated hardship that may be expected as a consequence. Employees who remain "to the bitter end" of a phased reduction may be classified into two quite different groups. On the one hand are those who have not yet found an acceptable alternative. But also included are those incumbents who have been considered so important to the organization's production that they have been enticed to stay until closure.

The practical problem, in all of these cases, is how and when to identify a subgroup of terminees as worthy of assistance. The sooner terminees are identified, the more likely it is that the group will include individuals who do not need assistance to reestablish themselves. However, if intervention is delayed to improve the target efficiency of the identification process (i.e., including only those who are deserving of attention), timely responsiveness to individual hardship will be compromised. One important task, then, is to determine whether correlates of ultimate hardship can be identified early in the unemployment period by using only routinely available administrative data. The next section addresses this issue.

Historical occupational attachments describe only what a person has done, not necessarily what the person can do. Obviously, what an individual has done is important information for prospective employers about the range of positions for which the individual may be considered, but it is not the only signal. What is important, from a reemployment prospects standpoint, is the transferability of embodied skills. Again, it is important to remember that internal labor market features may effectively bar application of skills previously practiced. That is why naive exercises in occupational supply and demand matching may be quite misleading; that is, displaced workers may know how to perform one or more tasks for which job openings exist, but may not qualify for hiring because of internal rules about promotion rights and limitations on external "ports of entry."

The concentration issue may be summarized by simply noting the extraordinary complexity of circumstances that may be associated with permanent job elimination.

Permanence

Three important aspects of the permanence of layoff are as follow:

- The level of reduction
- The composition of the reduction
- The individuals affected

Permanence of the *level* of a reduction in force is inextricably linked to the choice of a unit of analysis, as previously described. The permanent elimination of a product line within a conglomerate organization may be accompanied by total absorption of all terminated employees within other units of the enterprise. Similarly, permanent plant closure in a given geographic area may be accompanied by total absorption in other enterprises within the same region. What should be added is an explicit recognition that reemployment prospects—and therefore the propriety of intervening on an individual's behalf—require a careful distinction between employment level pulsations (i.e., alternating decreases and increases in the level of employment) and "permanent" declines.

Permanence of the *composition* of a reduction in force is important, from the standpoint of reemployment prospects, because elimination of a product line may render a long list of occupational skills obsolete, even if the eliminated jobs are balanced by position growth.

Permanence of *individual* severance is important because an employment pulsation may not affect a particular terminee's reemployment prospects, except, perhaps, in the indirect sense (i.e., if other people are hired, the terminee faces less competition for jobs elsewhere).

Job Elimination Consequences

There are three major categories into which job elimination issues should be grouped for eligibility determination purposes:

- Productivity consequences
- Compensation consequences
- Reemployment opportunity consequences

The productivity *consequences* may be further separated into four important subgroups:

- Job- or firm-specific human capital loss
- Motivational deterioration
- "Team" productivity interruption
- Educational obsolescence vis-a-vis renewal of human capital

Together, these aspects of productivity effects, which may be expected to accompany permanent job elimination, offer important insights about the reemployment prospects of displaced workers. (They also permit inferences to be drawn about the remedial promise that exists in specific circumstances—an issue discussed in the concluding section.)

The *compensation* consequences of permanent job elimination may also be separated into four categories:

- Future wage/nonwage opportunities

- Severance pay
- Vesting of pension rights
- Unemployment compensation and other transfer payment eligibility

Reemployment opportunity is treated as a separate subcategory to permit distinctions to be drawn among the following situations:

- Actual productivity loss—
    - temporary, but reversible
    - permanent
- Illusory "productivity" loss—
    - racial, sex, age (etc.) discrimination
    - internal labor market barriers to entry

All of these concepts focus attention on the key issue of what routinely available identifiers may be reliably used to predict which victims of displacement will have the greatest difficulty reestablishing themselves in productive employment.

Summary of Conceptual Issues

Voicing executive or legislative concern for displaced workers is easy. Designing an equitable and efficient way to respond to this expression of concern is difficult. The purpose of this conceptual exploration has been to sensitize the reader to the complexities encountered in spelling out a practical administrative procedure to identify and serve only deserving persons.

First, it is necessary to decide what eligibility criteria are to be adopted. Signals that offer reliable evidence of permanence of job separation must be identified if displacement is to be interpreted as synonymous with permanent job elimination.

Second, having defined the universe of eligibles, it is necessary to create priorities for allocating limited available funds. Here, it is important to recognize that differences of opinion exist about what "matters" in determining individual reemployment prospects. These differences of opinion influence recommended intervention strategies for two reasons: (1) because the range of employment opportunities is viewed differently and (2) because individual incentives to take advantage of particular opportunities are subject to dispute.

The next section shows that available data fall far short of what is desired for exploring these issues.

ESTIMATING THE IMPACTS OF WORKER DISPLACEMENT

Measures of Economic Hardship

Three indices of economic hardship are examined in this section. All three of these measures are indirect proxies for economic distress. The first measure is postdisplacement earnings and provides an index of absolute purhasing power (independent of other sources of income and in-kind benefits), without regard to previous earnings flow profiles. The second measure of hardship is the proportion of UI benefits eligibility that is actually used (i.e., the "utilization rate"). Obviously, this index represents the net influence of multiple forces, so that a high utilization rate is not an unambiguous index of difficulty in finding a new job. Finally, a third measure of economic distress, which is closely related to the utilization rate, is the duration of compensated unemployment (i.e., the number of weeks of unemployment during which UI benefits have been drawn).

Each of the measures that has been chosen for examination is available as a byproduct of the routine administrative reporting practices required by many state employment security agencies (SESAs), although these are not necessarily the only (or even the best) possible indices of economic hardship.

A Model of Postdisplacement Earnings

The following model of postdisplacement earnings has been specified:

$$PDE = a + b(D) + c(PRE) + d(C) + e(I)$$

where, PDE = postdisplacement earnings;
D = a measure of displacement;
PRE = predisplacement earnings;
C = economic and personal characteristics; and
I = work-incentive factors.

In other words, post-unemployment earnings are specified to be a linear function of the permanence of job elimination, pretermination earnings, local economic forces, personal characteristics, and "push" factors associated with a need to renew an earnings flow.

Here, displacement is indirectly measured by two variables:

- Exhaustion of UI benefits eligibility
- Declining employment in the claimant's previous industry affiliation

The personal characteristics utilized are age, education, sex, and ethnicity. The indices of work incentive used are (1) presence of a working spouse and (2) the UI benefit amount as a proportion of previous earnings (i.e., the replacement ratio).

A Model of the UI Benefit Eligibility Utilization Rate

This second measure of economic hardship is specified to be a function of the same vectors of causal forces, except that exhaustion of UI benefits is dropped from the displacement vector because of definitional collinearity with the new dependent variable.

A Model of Compensated Weeks of Unemployment

This third measure of economic hardship is specified to be a function of the same basic forces. Here, though, in addition to definitional collinearity between the dependent variable and exhaustion of UI benefits eligibility, there is a need to control for the maximum eligibility period, which is not constant across claimants. This control is accomplished by adding an individual-specific measure of maximum UI benefits eligibility.

It is important to understand the distinction among compensated weeks of unemployment, the total uninterrupted duration of a given unemployment spell, and the combined duration of multiple spells of unemployment observed during a specified period (e.g., a claimant's benefit year). This chapter investigates the compensated duration question, which may equal (but cannot exceed) the other measures (ignoring the "waiting week" issue).

The Data Source Utilized to Estimate These Three Models

Continuous Wage and Benefit History (CWBH) data for calendar years 1979 (in Missouri) and 1980 (in Nevada) were complemented by information drawn from the states' ES-202 reports in order to calculate two-digit SIC industry employment changes during the respective reference periods. Only claimants who established a new benefit year during the one-year reference period were selected. A 50 percent random sample of CWBH master claimant records was chosen. These records were then merged with quarterly covered-earnings information for these claimants for the period 1977 through 1982 (in Missouri) and 1978 through 1982 (in Nevada). Average quarterly pre- and post-benefit-year earnings calculations were derived.

The resulting sample sizes were 2,722 (Missouri) and 3,466 (Nevada). These sample sizes permitted separate estimates to be derived for both of Nevada's SMSAs (Las Vegas and Reno) and for two of Missouri's six SMSAs (Kansas City and St. Louis), as well as for the balance-of-state for both Missouri and Nevada. (This balance-of-state [BOS] for Missouri is not synonymous with the CETA BOS jurisdiction.)

Results

Using ordinary least squares (OLS) regression techniques, the following estimates were derived (see table 15-1):

- UI benefits exhaustees from a two-digit SIC previous affiliation that exhibited no general employment decline in the geographic jurisdiction of interest earned between $300 and $400 per quarter less, during the reference period following the pertinent benefit year, than did a comparison group of nonexhaustees with similar previous industrial affiliations.

TABLE 15-1

SUMMARY OF SIGNIFICANT VARIABLES IN POSTWAGE EQUATION (EXCLUDING INDUSTRY VARIABLES)

	STATEWIDE		SMSA'S			
VARIABLE	NEVADA	MISSOURI	LAS VEGAS	RENO	ST.LOUIS	KS CITY
PREWAGE	.74	.72	.82	.45	.78	.66
EXH NO DE	-404	-614	-458	NS	-627	-438
EXH SM DE	-761	-768	NS	-709	-1084	-548
EXH LG DE	-706	-1833	-1271	-854	-2269	-707
NONEX SM	-233	NS	NS	NS	NS	NS
NONEX LG	NS	-564	-793	NS	-1072	NS
WG RPLC	- 3	NS	NS	- 5	NS	NS
SEX	117	165	NS	255	253	NS
ETHNIC	NS	NS	NS	-422	NS	-302
AGE 25-44	NS	NS	NS	NS	NS	NS
AGE 45-54	NS	NS	NS	NS	NS	NS
AGE 55-67	NS	-291	NS	NS	-472	NS
SPOUSE WK	–	160	–	–	NS	304
EDUC COL	–	194	–	–	NS	NS
EDUC DEG	–	826	–	–	1124	NS
- - - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -
ADJ R SQR	.38	.43	.43	.26	.43	.56
DEP MEAN	$2,718	$2,291	$2,825	$2,515	$2,400	$2,422

VARIABLE	BOS NEVADA	BOS MISSOURI
PREWAGE	.56	.60
SEX	365	NS
EXH NO DECL	NS	-551
EXH SM DECL	NS	-620
EXH LG DECL	NS	NS
WG RPLCMT	NS	-4.63
ETHNIC	NS	294
EDUC COL	–	369
EDUC DEG	–	NS
SPOUSE WK	–	NS
- - - - - -	- - - -	- - - -
ADJ R SQR	.30	.37
DEP MEAN	$2,544	$1,871

NOTE: Significant level for inclusion is .10. NS indicates not significant. BOS indicates balance of State (non-SMSA). A - indicates variable not available in this state or area.

- UI benefits exhaustees from two-digit SICs that experienced less than a 5 percent decline in employment during the reference period reported covered earnings of between $500 and $1,000 per quarter less than comparison group members.

- UI benefits exhaustees from a two-digit SIC that exhibited a 5 percent or greater decline in employment, received quarterly wages of between $1,700 and $2,200 less than comparison group claimants.

UI benefits exhaustion and two-digit SIC employment decline are both important predictors of differential earnings flows during the quarters immediately following the reference benefit year. An interaction variable, which is intended to represent the additional influence of the combined presence of these two forces, improves the estimates derived and is statistically significant.

The administrative importance of these estimates is that declining employment trends at the local two-digit SIC level of detail are detectible within six months of the time that quarterly reports are submitted in compliance with a state's UI statute. However, exhaustion of UI benefits eligibility occurs later than one may want to wait to intervene on an individual claimant's behalf. It is important to determine, then, whether exhaustion of UI benefits eligibility itself can be predicted with sufficient reliability for earlier intervention to be exercised. (An attempt to model the probability of UI benefits exhaustion is reported in a later subsection of this chapter.)

The results suggest that knowing the dynamics of industry employment decline at the local level, using routinely available administrative data, does offer valuable insights about UI claimants' subsequent earnings prospects. However, caution is urged, because mixed results are obtained when the same model is estimated for each of the eight substate areas mentioned earlier (i.e., the stability of the estimates is uneven across substate areas).

Among the most interesting differences among the coefficient estimates for the four SMSAs (i.e., Las Vegas, Reno, Kansas City, and St. Louis) are the following:

- The average prebenefit year earnings coefficient ranges from a high value of 0.82 for Las Vegas to a low value of 0.45 for Reno. Apparently, the discontinuity in earnings opportunity was much more severe in Reno, as the area employment growth exhibited in Reno over the study period (1979-1980) was lower than that for any other area included in the analysis.

- The interaction of UI benefits exhaustion and industry employment decline produced mixed estimates for the four SMSAs. All significant coefficients (seven out of twelve) exhibit a negative sign, as expected. However, only the St. Louis estimates conform to a monotonic and significant decline in post-benefit-year earnings associated with the more severe indices of displacement.

It is concluded that exhaustion of UI benefits eligibility, combined with prior affiliation with a declining industry, offers a reliable signal of relative earnings deficiency thereafter.

There has been less success in achieving reliable estimates of important correlates of variations in compensated duration of unemployment, or of variation in the UI benefits entitlement utilization rate. This suggests that it is easier when using available administrative data, to predict post-benefit-year earnings level variations than it is to acount for the length of time it takes to become reemployed. Given the disappointing results achieved in trying to model the compensated duration and benefits utilization rate issues, it is necessary to draw back to a less ambitious attempt and merely predict who the individuals are who are likely to exhaust their UI benefits entitlement, again using available administrative information to make the predictions. The results of this effort are briefly described in the next subsection.

A Model of UI Benefits Exhaustion Probability

The model of UI benefits exhaustion probability, which has been estimated using three different statistical techniques, includes three demographic characteristics (i.e., sex, ethnicity, and age), three UI program measures (i.e., maximum benefit duration, weeks of benefit entitlement left, and the wage replacement ratio), and three labor market features (i.e., average previous earnings, prior industry affiliation, and the industry decline measure mentioned earlier).

Since the dependent variable in this analysis is dichotomous—a claimant either exhausts or does not exhaust eligibility—special consideration must be given to the statistical procedures that are used. Specifically, it is necessary to constrain probabilities of exhaustion to lie between the values of zero and one. Binomial logit and discriminant analysis techniques were used, in addition to ordinary least squares regression. Without belaboring the technical aspects of these choices here, it is important to know that the assumed properties of the data, which are required to ensure proper interpretation of estimates derived, are very stringent. In addition, it is difficult to compare individual coefficients across the different techniques, and it is harder to make confident statements about the overall "goodness of fit" of the model(s) specified.

The explantory power of all three of the statistical techniques utilized is severely limited. Consequently, it is more appropriate to conclude that the procedures produce similar results because the model specification is far removed from an accurate statement of the important causal forces that affect UI benefits exhaustion probability, than because the three methods are equally sensitive to the distributional characteristics of the sample data.

Before specifying a conditional probability model of the UI benefits exhaustion phenomenon, an examination was made to probe earlier efforts. All relevant efforts have been seriously constrained by available data for estimating the models. It was hoped that variables included in the CWBH master claimant records, supplemented by quarterly covered earnings data and other routinely available administrative information, would prove useful in the quest for improved predictions of claim-series duration.

Unfortunately, this was not feasible, to the extent that model specification and estimation activities have been conducted judiciously. Neither the choice of relevant variables and functional forms nor the interpretation of estimates derived from different statistical procedures are obvious. To illustrate this assertion: A greater than 4 percent decline in employment in a claimant's previous industry affiliation does *not* appear to result in a greater likelihood of UI benefits exhaustion. Does this mean that termination of employment in a declining industry is not a reliable signal of "unusual" economic distress? Or does it offer a signal to "look elsewhere" (which would increase the sense of urgency to cast about for a new job, because the old one is unlikely to become available again)? The net result of these opposing forces cannot be predicted a priori.

Summary of Results

Using the CWBH data source, supplemented by other available information, a consistent and important relationship is demonstrated between industry decline and UI benefits exhaustion, on the one hand, and subsequent earnings level, on the other hand. Ignoring, for a moment, what happens *during* a spell of unemployment, it is possible to draw upon available information to identify useful predictors of selected measures of economic distress.

The results, to date, do not support one theory of labor market forces over another model. The empirical proxy for concentrated permanent job elimination is relatively weak. Almost nothing is known about the obsolescence of embodied human capital that may accompany the loss of a job. Little more is known about occupational transitions, which may offer insights about the "attachment" concepts discussed earlier, from both supply- and demand-side perspectives. However, routinely available administrative data do offer a largely untapped source of potential insight about important labor market dynamics. Suggestions for future action in this regard are offered in the concluding section.

RECOMMENDATIONS

This chapter has offered an extended discussion of practical definitional issues that must be confronted in carrying out the requirements of JTPA Title III. It has also reported the results of statistical inquiries undertaken in an attempt to identify reliable predictors of economic hardship resulting from prior displacement. As stated at the outset, the purpose has not been amelioration; the recommendations therefore focus on information development matters only.

First, it is clear that the search for uniformities in the circumstances, characteristics, and behavior of unemployed people has produced rather limited results, to date, in terms of predicting exhaustion of benefits or duration of unemployment. An important consequence of this meager understanding is that the promotion of target efficiency (i.e., serving *only* those who are deserving) is also drastically weakened. It is recommended, therefore, that model specification precede data collection in selected future efforts, which should enhance the prospects for identifying reliable predictors of economic hardship.

A more extensive and coordinated effort should be made to develop state and local staff expertise in utilizing available administrative data sources to further management objectives. At the same time that duplication of effort has become a major concern because of the decentralized structure of the JTPA system, it is apparent that sins of omission occur in the form of failure to utilize readily available resources effectively. The analyses reported in this chapter have demonstrated the usefulness of these administrative data in identifying potential participants for displaced worker training programs.

Substantially greater attention should be given to the varied circumstances of those who will not return to their former jobs. The discussion earlier in this chapter clarified the complexities of ferreting out those who need help. It is important to remember, in this regard, that local remedial promise is not independent of the causal forces that led to the displacement event in the first place.

Advantage should be taken of administrative data sources to trace the mobility paths followed by graduates of designated training activities (i.e., public-secondary, and postsecondary, proprietary, and on-the-job). These mobility paths should include geographic and industrial movement, as well as earnings profiles. Not all states are in a position to undertake this type of analysis, but enough are to make the recommendation of national importance. Indeed, successful use of the available data for such purposes could enhance the prospect of securing comparable data for other states.

16

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The Economic Impact of the Downriver Community Conference Economic Readjustment Activity Program: Choosing between Retraining and Job Search Placement Strategies

INTRODUCTION: RECENT EMPLOYMENT POLICY AND THE PROBLEM OF DISPLACED WORKERS

An especially visible and serious component of the unemployment problem in the United States is that of displaced workers, individuals who have been unemployed due to structural changes in the economy. These changes shift the long-term demand for workers with particular skills or alter the overall demand for labor services in specific geographic areas. In either case, the transition to new employment may be costly in terms of lost earnings and may require retraining in new skills or relocation to a different labor market or industry.

It is difficult to pinpoint the size of the displaced worker problems in the United States. A Congressional Budget Office (1982) study estimates that there were between 100,000 and 2.1 million displaced workers in the economy as of January 1983, depending upon the definition used.* This implies that between 1 percent and 20 percent of all the unemployed are displaced workers. Although these figures partly reflect the currently high cyclical unemployment, most observers agree that there is a problem of displaced workers that will persist after the economic recovery. They point to two secular changes in the structure of the U.S. economy: the growing interdependence of our economy with that of the rest of the world and the modernization of many older industries via labor-saving technology.

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*See table 2 in Congressional Budget Office (1982).

The centerpiece of federal policy to alleviate long-term unemployment is Title III of the Job Training Partnership Act (JTPA). Title III establishes state-administered programs of employment and training assistance for displaced workers, to be funded with federal matching grants allocated on the basis of unemployment conditions. Title III authorizes states to use a variety of employment and training activities in their programs, including job search assistance, job training, relocation assistance, and employment counseling.

Among the questions facing policymakers involved in planning these programs for displaced workers are the following:

- What percentage of workers made eligible for a displaced workers' reemployment program could be expected to participate?

- What effects do the amount and duration of income support have on workers' decisions to participate in these programs?

- Can such programs be expected to have an effect on participants' reemployment, including the duration of unemployment and reemployment wages?

- If there are beneficial effects, can they be traced to particular program services? Which aspects of these services appear to contribute to program success?

- Can programs for displaced workers be cost-effective?

In anticipation of these issues, the U.S. Department of Labor in 1980 began to fund pilot projects that offer promising strategies for reemploying displaced workers. The first of these programs to be implemented, the Downriver Community Conference Economic Readjustment activity (Downriver ERa) program, is analyzed in this chapter.

The following section describes significant aspects of the Downriver ERa program, reviews the evaluation design and sampling plan, and characterizes the analysis sample for this study. The section thereafter discusses the determinants of program participation. The final section provides an assessment of the Downriver ERa program's effect on participants' reemployment rates.

THE DOWNRIVER COMMUNITY CONFERENCE ECONOMIC READJUSTMENT ACTIVITY PROGRAM

The Downriver ERa program* began operation in July 1980, and since that time has enrolled over two thousand workers from five plants. The overriding program objective is reemployment. Participants requiring medical help or social services are referred to an appropriate community agency for assistance; these needs are not addressed directly by the Downriver ERa program.

The first step in the reemployment process involves careful screening of applicants to determine (1) which participants possess currently marketable skills and are likely to require only job placement assistance from the program and (2) which participants lack skills in demand and could benefit from classroom or on-the-job training. All participants are required to complete basic aptitude testing and a four-day job-seeking skills workshop as part of this assessment process.** Participants not completing these requirements (unless waived by program staff) are not formally enrolled in the Downriver ERa program and are not allowed to receive additional services.

The purpose of these mandatory activities is twofold: (1) to give Downriver ERa program staff some early practical knowledge of participants' interests, abilities, and reemployment prospects and (2) to make clear to participants that their active involvement in the program is necessary for it to have beneficial effects. Once participants have completed the testing and workshops, a team of program staff comprised of job developers, workshop leaders, and counselors meets to review the case files of those participants expressing an interest in retraining.* A determination is then made regarding the participant's ability to benefit from either classroom or on-the-job training, based on the participant's test scores, previous work history, and performance in the workshop. The entire screening and assessment procedure is completed during the first two weeks of program participation.

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*A more detailed description of the implementation and operation of the Downriver ERa program is found in Kulik (1982).

**Tests include the Test of Adult Basic Education (TABE), the Differential Aptitude Test (spatial, abstract, and mechanical reasoning and clerical ability), and the Wide Range Interest and Opinion Test. The workshops include skills identification, resume development, mock interviews, and identification of potential employers. Many workshop strategies were tested by program staff before implementing the current format. In particular, a "job club" model, including classroom instruction in job search methods followed by active job search, was tested and abandoned because participants became overly dependent on the process. The current workshop, supplemented by use of a job search resource center, has been designed to emphasize participants' initiative and motivation in the job search process.

Downriver ERa program staff implement market relevant procedures for developing classroom and on-the-job retraining opportunities. First, local and out-of-area employers are canvassed to identify growth occupations where it should be feasible to develop a classroom or on-the-job program. Such occupations include those with a "reasonably healthy" employment outlook for entry-level positions. By and large, local publicly supported community colleges and vocational schools are selected to provide this training, although some training is provided through proprietary schools or through employers directly. Employers are also involved in reviewing provider capabilities and in ensuring that the curriculum meets actual occupational requirements.

Emphasis is placed on short-term (for approximately eight months) intensive classroom programs. Class-size training programs, designed exclusively for program participants using employer-modified curricula, have been developed to fill high-technology and machine trades occupations. Existing courses at local institutions (which are attended by other students in addition to participants) are also made available through the program, if the employer review process indicates sufficient demand for the occupation and if the participant's training needs cannot be met by one of the class-size programs. On-the-job training slots are developed for workers who could benefit from training but who seem more likely to succeed in a work site training setting. The program pays 50 percent of participants' starting wages during the length of time it takes to train for the occupation.

Active employer involvement in identification of demand occupations and design of curricula is a step forward in developing training programs that are more directly linked to occupational requirements and, consequently, to employment. Yet Downriver ERa staff point out that the process of implementing these training programs has not been entirely smooth. It has been necessary to overcome training providers' initial skepticism regarding the feasibility of developing short-term, intensive programs. There has been a problem in meshing participants' interests and abilities with viable course offerings. Last, there is the vexing problem of the worsening economy, which prompts many employers to require increased experience or education even for entry-level jobs.

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*Initially, all participant case files were reviewed at the end of the workshops. This proved to be inefficient and extremely time consuming. Now, only the files of participants interested in retraining are reviewed to ensure a careful selection of those both most qualified and most able to benefit.

The Downriver ERa program has been funded in two phases, the first phase operating between July 1980 and September 1981, and the second phase operating between November 1981 and December 1983. This analysis focuses on the performance of the first phase of the program, developed when the BASF Corporation (a chemical producer and supplier to the automotive industry) and the DANA Corporation (a manufacturer of truck frames) closed permanently in the summer of 1980. Of the estimated fifteen hundred workers laid off by these closures—all of whom were eligible for the Downriver ERa program—nearly seven hundred successfully completed the initial assessment process and were enrolled in the Downriver ERa program. In contrast to previous government-funded programs, stipends were not routinely paid to participants, though workers who had exhausted their unemployment compensation and who were enrolled in classroom retraining could be paid the minimum wage for each hour they were in class.

Over half of the program participants during this first phase received some form of retraining, either in a classroom or an on-the-job setting. Class-size training programs were developed specifically for participants in high-technology (e.g., electronics, numerical control machine operation) and other manufacturing (e.g., pipe welding, machine operation, screw machine operation) or service (e.g., heating and cooling, energy audit) occupations. Existing training courses at local community colleges and on-the-job training positions were also made available to participants.

The Evaluation Design and Analysis Sample

As noted, workers from the BASF and DANA automotive supply plants were made eligible to receive program services during the first phase of operations. In evaluating this first phase of the program, two comparison plants were selected to provide a reference group for measurement of program effects. These plants, the Lear-Siegler Corporation and the Chrysler Huber Avenue Foundry, are located within the same labor market as the DANA and BASF plants and are otherwise very similar (eaxcept that they were not offered eligibility for Downriver ERa services). All four plants closed permanently during the summer of 1980 and had comparable layoff histories prior to closure (see table 16-1). All four plants were suppliers to the automotive industry and had similar work force sizes affected by the shutdown. Finally, workers from these plants were, with one exception,* eligible for the same income support benefits programs.

To provide data for this evaluation, a sample of one thousand laid-off workers, evenly divided among the four plants, was selected and interviewed. The sample was selected randomly from the plants' layoff rosters, except that workers who retired or who had been on disability for a year or more prior to plant closure were excluded from the sampling frame. Workers were interviewed in the summer of 1982, an average of two years after layoff. Most of the sampled workers (94 percent) were laid off between June 1979 and December 1980. Finally, for those BASF or DANA workers participating in the first phase of the Downriver ERa program, information on program enrollment and services received was gathered from the program's management information system to supplement the survey data.

Although the literature on displaced workers indicates that separate analyses of the reemployment process by sex is required, the sample contained few females. Accordingly, a subsample of 769 white and black males, who were laid off between June 1979 and December 1980 and who had not moved from the Detroit area, was selected as the primary analysis group (see table 16-2). The analysis sample had the following general characteristics:

- These displaced workers are, on average, forty years old. Approximately 30 percent are black, and 60 percent have at least a high school diploma or its equivalent.

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*The Chrysler Foundry plant was eligible for Trade Readjustment Assistance (TRA), in addition to the Supplemental Unemployment Benefits and Unemployment Insurance (UI) for which workers from the other plants were eligible. TRA regulations in force during the time of the study provided for replacement of recipients' after-tax average weekly earnings on the layoff job at a much higher rate than the other programs. They also permitted receipt of benefits for a base period of fifty-two weeks, twice as long as the base UI benefits period. In addition, TRA also offered subsidized training, primarily through the Comprehensive Employment and Training Act (CETA), to these Chrysler workers and allowed twenty-six additional weeks of benefits for those enrolling in training. For these reasons, the analysis that follows was conducted with and without the Chrysler Foundry included as a comparison plant.

Table 16-1

CHARACTERISTICS OF PROGRAM-ELIGIBLE AND COMPARISON PLANTS

Characteristic	Program Plants		Comparison Plants	
	DANA	BASF	Lear-Siegler	Chrysler Foundry
Layoff History	Previous layoffs in 1978. Approximately 450 laid off 11/79. Remainder laid off at closure.	No previous layoffs.	Previous layoff history. Approximately 300 laid off 8/79.	No previous layoffs.
Final Closure Date	6/80	6/80	7/80	7/80
Number Laid Off	1,106	716	677	585
Product	Truck frames	Auto-related Chemicals	Auto parts	Auto foundry
Benefits	Unemplyment Insurance (UI); Supplemental Unemployment Benefits (SUB)	Unemployment Insurance (UI)	Unemployment Insurance; Supplemental Unemployment Benefits	Unemployment Insurance, Supplemental Unemployment Benefits; Trade Readjustment Assistance (TRA)
Number Interviewed	310	199	271	222

Table 16-2

CHARACTERISTICS OF THE ANALYSIS SAMPLE, BY PROGRAM-ELIGIBLE AND COMPARISON GROUP STATUS

Characteristics	Program Eligible Workers	Comparison Group Workers
Percent with Age:		
Less than 35	32.2	45.6
35-44	23.6	25.3
45-54	20.0	15.6
55 and over	24.2	13.5
Percent Married	68.0	55.0
Percent with Children	52.0	52.4
Percent Black	30.9	48.2
Percent with Years of Education:		
Less than 12	41.0	45.6
12	40.0	38.5
More than 12	18.9	15.8
Percent with Years of Work Experience:[a]		
Less than 16	32.2	44.3
16 to 30	32.0	35.6
More than 30	35.8	20.1

Characteristics	Program Eligible Workers	Comparison Group Workers
For the Layoff Job:		
Mean hourly wage rate	$ 9.29	$ 8.74
Mean years of experience with the company	14.3	9.5
Percent with Occupation:		
Craftsworkers	27.5	35.4
Operatives	59.5	50.3
Service workers/ laborers	4.9	10.7
White-collar workers[b]	8.0	3.6
Percent with layoff dates:		
6/79 through 12/79	29.1	28.6
1/80 through 3/80	5.4	19.8
4/80 through 6/80	49.6	13.8
7/80 through 12/80	15.9	37.8
Mean Unemployment Benefits Replacement Rate (%)[c]	50.0	76.0
Sample Size	385	384

NOTE: The sample is restricted to black and white male workers, laid off from 6/79 through 12/80, who completed the program's job seeking workshop.

[a] Number of years working at least six months or more since age 16

[b] Includes professional and technical workers, managers, sales and clerical workers.

[c] Sum of estimated unemployment compensation, supplementory unemployment, and TRA benefits received per week divided by after-tax weekly earnings on the layoff job (times 100).

- These are experienced workers with an average of twenty-five years of general work experience since age sixteen, and an average of fourteen years with the company that laid them off. They are mostly operatives and craftsworkers who earned over nine dollars per hour on their layoff job. This compares with a 1980 average manufacturing hourly wage rate of about seven dollars.

- The estimated unemployment benefits replacement rate (the percent of after-tax earnings on the layoff job "replaced" by unemployment compensation, supplementary unemployment benefits, and TRA benefits) averaged 50 percent for program-eligible workers, and 75 percent for comparison workers. This difference is primarily due to the higher benefits paid to Chrysler workers under the TRA program.

PARTICIPATION IN THE DOWNRIVER ERA PROGRAM

A major issue facing planners of displaced worker programs under Title III of the JTPA is the proportion of eligible workers expected to participate. A related issue is the number of participants expected to require retraining to become reemployed. In examining participation of eligible DANA and BASF workers during the first phase of program operations, the following results stand out (see table 16-3):

- During the first phase of the Downriver ERa program, demand for reemployment services was high. Approximately 49 percent of eligible workers actually participated. This high participation rate may have been influenced by the involvement of plant management and union representatives in program outreach.

- Former BASF employees were more likely to participate than workers from the DANA plant. Younger workers, better educated workers, and workers with less than thirty years of employment experience also participated at higher rates than their counterparts. Workers laid off before the Downriver ERa program became operational were significantly less likely to participate than those laid off after program start-up. White-collar workers were much less likely to participate than operatives, craftsworkers, or laborers.

Table 16-3

PROGRAM PARTICIPATION RATES BY PLANT AND WORKER CHARACTERISTICS

Characteristic	Participation Rate
All Workers	48.8
By Plant:	
BASF	58.0
DANA	43.0
By Years of Age:	
Less than 35	58.9
35-44	51.7
45-54	55-8
55 and over	26.9
By Race:	
Black	50.4
White	48.1
By Years of Education:	
Less than 12	43-0
12	52.6
12 and over	53.4
By Years of Work Experience:	
Less than 16	59.7
16-30	52.0
30 and more	36.2
By Occupation of Layoff Job:	
Craftsworkers	45.3
Operatives	52.8
Service workers/laborers	47.4
White-collar workers	30.0
By Layoff Date:	
6/79 through 12/79	42.9
1/80 through 3/80	52.4
4/80 through 6/80	53.9
7/80 through 12/80	42.6
By Unemployment Benefits Replacement Rate:	
33% - 43% (UI only)	51.0
44% - 53% (UI & SUB)	47.4

NOTE: The program participation rate is the number of participants (defined as completing the job-seeking skills workshop) in each group divided by the number of program-eligible workers in the group (x 100). The sample is restricted to program-eligible workers in the analysis sample; N=385.

- Of those participants laid off after the program operations, most enrolled between thirteen and twenty-six weeks after layoff. Average "waiting time" between layoff and enrollment was approximately four months. This suggests that the program may have drawn in laid-off workers whose initial job search efforts were unsuccessful.

- Fifty-seven percent of all participants received some form of retraining (see table 16-4). Of those receiving training, approximately a third were enrolled in class-size programs developed specifically by the Downriver ERa program. Training courses averaged eight months in length, with the high-technology programs running somewhat longer. Fifty percent of those trained were enrolled in programs offered by local educational institutions but not designed specifically for participants, and the remaining one-fifth of the trainees participated in on-the-job training programs.

- Younger, better-educated workers and workers with fewer than fifteen years' work experience were more apt to be trained than their counterparts. Craftsworkers, presumably because they already possessed skills in demand, were least likely to be retrained.

PROGRAM EFFECTS ON THE REEMPLOYMENT OF PARTICIPANTS IN THE DOWNRIVER ERA

This section presents estimates of the effects of the Downriver ERa program on the reemployment of participating workers. First, the measures used to characterize the reemployment process are described. The approach used to estimating program effects follows, along with the central findings on the reemployment rate. Also discussed is how program effects vary with the type of services received by participants, focusing on the marginal impact of training over and above the impact of job placement assistance. Finally, estimates of the program effects on the employment rate from layoff to the survey interview are presented.

Describing the Reemployment Process

The primary objective of the Downriver ERa program is to facilitate the transition of permanently laid-off workers from their old jobs to new ones in an occupation, industry, or geographic area with a more promising employment outlook. Table 16-5 presents characteristics of this reemployment process for program-eligible and comparison workers in the analysis sample.

Given that sampled workers were observed for a limited time after layoff, the first and most important question to ask about this process is how many workers have found another job during the observation

Table 16-4

PROGRAM SERVICES RECEIVED AND THE DURATION OF PROGRAM PARTICIPATION

Type of Service[a]	Percent of Participants Receiving	Average Weeks Enrolled in the Program	Average Weeks Enrolled in Program Training
All Services	100%	38.7	--
Job Search Services Only	43.4	33.1	--
Any Training	56.6	43.0	32.5
High-technology class-size programs[b]	5.9	54.5	47.8
Other class-size programs[c]	12.4	45.8	28.0
Existing programs offered through local educational institutions[d]	28.6	40.5	29.9
On-the-job training	9.7	40.0	36.6

NOTE: The sample is restricted to program participants; N=185.

[a] As recorded in the program management information system.

[b] Includes electronics technician and numerical control operator courses developed specifically for program participants.

[c] Includes pipe welder, machine operator, energy auditor, heating and cooling operator, and screw machine operator courses developed specifically for program participants.

[d] Existing programs that were not designed specifically for program participants, but that were attended by participants and paid for by Downriver ERa program funds.

period. The first row of table 16-5 shows this reemployment rate, the percent of workers in the sample ever reemployed from layoff to interview date.

Table 16-5

CHARACTERISTICS OF THE REEMPLOYMENT PROCESS FOR PROGRAM-ELIGIBLE AND COMPARISON WORKERS

Characteristic	Program-eligible Workers	Comparison Workers
Reemployment Rate[a]	64.2%	49.2%
Mean Employment Rate from Layoff to Interview Date (%)[b]	32.4%	22.1%
Occupation of the First Postlayoff Job		
White-collar worker	15.3%	12.0%
Craftsworkers	27.7	38.0
Operative	34.3	26.1
Service worker/laborer	22.7	23.9

[a] The reemployment rate is the percent of workers ever employed from layoff to interview date. The sample used to calculate the reemployment rate, the employment rate, and average weekly earnings from layoff to interview includes 385 program-eligible and 384 comparison workers.

[b] The employment rate equals weeks employed from layoff to interview (including zero for workers never reemployed) divided by total weeks in the period.

Although an average of two years elapsed between the layoff and interview dates during the summer of 1982, only half of the workers from the comparison plants had found another job during this period. This result is particularly striking, given the demographic and labor market characteristics of the analysis sample. Middle-age males with families and a long history of work experience usually have strong attachments to the labor force, ruling out labor force withdrawal as the primary explanation for this low reemployment rate. Note also that program-eligible workers have a significantly higher reemployment rate of 64 percent. This is initial but weak evidence of a program impact on reemployment; weak because no adjustments have been made for other factors (such as age differences between the two groups) that could be confounded with the program effect.

The employment rate from layoff to interview, which equals the percent of weeks employed during the postlayoff period, is a more comprehensive measure of time spent at work. In addition to reflecting the reemployment rate, it also depends on the time it takes reemployed workers to find their first postlayoff job and on the stability of employment from that point to the interview date. Because half of the eligible and comparison workers in the sample never find a job during the observation period, employment rates are low. As with the reemployment rate there is initial evidence of a positive program effect.

As would be expected with structural unemployment, there is a substantial change in the occupational distribution from the layoff to the reemployment jobs. On the layoff job, about 60 percent of the workers in the sample were employed as operatives. Among the reemployed workers, the size of the operatives category drops to 30 percent. There is a corresponding increase in the percent of workers reemployed in the white-collar and service worker/laborer occupations. The percent of craftsworkers stays approximately constant through the transition from layoff to reemployment.

Measuring Program Effects on Reemployment Rates

The central problem in measuring the effects of a particular program on the behavior of participants is the choice of a comparison group. The comparison group provides an estimate of the behavior of participants in the absence of the program. Therefore, the comparison group should be, on average, like the participants in all respects except that the comparison group members did not participate in the program. In a study without random assignment, such as the one reported here, differences between the participant and comparison groups that are unrelated to the program treatment (but that affect the outcome variables) must be controlled for in measuring program effects.

The differences between participant and comparison groups, however, may not be measurable. For example, suppose that participants in the Downriver ERa program are more eager to find another job, on average, than nonparticipants from the program-eligible plants. (In fact, this is one reason why they may paticipate in the program.) This different motivation will affect a worker's

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probability of reemployment through more extensive job search and extra effort devoted to the training programs. If, in controlling for measurable differences between the participants and comparison group members, the study does not also capture the difference in motivation, then estimates of the program's effect on reemployment will be biased upwards.

Unmeasurable differences between participant and comparison groups may also be caused by the process used to assign participants to program services. If the most effective services are reserved for the "best" participants, such as those who are the most motivated in the job search workshops, estimates of treatment effects will again be biased upwards. Although statistical methods are available for modelling these unmeasured differences, the results obtained are generally sensitive to the assumptions used in constructing the models.*

This study takes an indirect approach to controlling for unmeasured differences between participants and comparison group members in assessing program effects on the various outcome measures. The reemployment rate may serve as an example. Using various methods (described later) to control for measured differences, the study compared the reemployment rate for program-eligible and comparison group members. This provides an estimate of the average program effect on program-eligible workers. Assuming that the program had no effect on eligible workers who did not participate in the program, the program effect on all *eligible* workers equals the program effect on *participants* times the participation rate. This result has a simple interpretation. It states that the impact of a program on the population eligible to receive its services is a function of the number of eligible persons who decide to participate and the average impact of the program on those participants. Given this relationship, the effect of the Downriver ERa program on the reemployment rate of its participants may be obtained by dividing the effect on eligible workers by the participation rate.**

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*Farkas and Stromsdorfer (1980) offer a good collection of recent articles dealing with the statistical problems of unmeasured variables in a variety of policy areas.

**If Z represents the program effect and the subscripts p, np, and e represent the participants, nonparticipants, and eligibles, respectively, then the program effect on eligible workers is a weighted average of the effect on participants and nonparticipants,

$$Z_e = Z_p \cdot P + Z_{np} \cdot (1-P)$$

where P is the program participation rate. Assuming that there is no effect on nonparticipants, the program effect on participants is $Z_p = Z_e/P$

Note that this approach avoids the problem of unmeasured differences between *participant* and comparison groups. The program effect estimate is obtained by comparing *program-eligible* and comparison workers. Both groups have members who either participated or would have if given the opportunity. They also contain workers who chose not to participate or would not have participated if they had been eligible.

The assumption of a zero program effect for nonparticipants is not an innocuous one, but it seems reasonable for this application. First, the Downriver ERa program was small, relative to the size of the labor market in which it operated. The Detroit labor market, which contains the Downriver area, had an average of 1.7 million workers on payrolls in 1980. The first phase of the Downriver ERa program was made available to approximately 1,500 laid-off workers during its operating period. Even in the loose labor market that characterized Detroit in 1980, the Downriver participant group was probably small in comparison to job vacancies in the area.* Second, a program may affect nonparticipants if participants monopolize the existing subsidized employment services, such as training opportunities, in the local area. But the Downriver ERa program paid for the training of program participants out of its demonstration funds, rather than placing participants into its existing CETA programs.** Therefore, the Downriver ERa program most likely increased the amount of training in the area, leaving the subsidized opportunities for nonparticipants unchanged.***

In estimating the program's effect on the reemployment rate of program-eligible workers, it is important, of course, to control for variables that affect the probability of reemployment and that differ between the program-eligible and comparison groups. Job search theory suggests a possible list of these variables. The theory postulates that unemployed workers set a reservation wage and search until they find a wage offer that exceeds the reservation wage. The reservation wage is set by comparing the marginal gains from additional search, the probability of getting a yet higher wage offer times the increase in earnings, with the costs of additional search, including out-of-pocket costs and foregone earnings. Although an explicit model of the job search process cannot be estimated here, included as control variables are worker characteristics that are thought to determine the reservation wage and the offer wage. In particular, age, marital status, the presence of children at home, and the unemployment benefits replacement rate are included in the reemployment model as determinants of an individual's reservation wage. The first three factors will affect the utility of foregone earnings; the final factor will affect the net size of those earnings. As determinants of the potential wage offer, general work experience, years of formal education, tenure on the layoff job, and a dichotomous variable for being black are included.* These are key variables in a human capital explanation of wage rates.

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*Unemployment rates for the Detroit labor market averaged 13.1 percent in 1980, 12.9 percent in 1981, and 15.7 percent in the first half of 1982. This compares with national unemployment rates of 7.1, 7.6, and 9.1 percent, respectively.

**Many Downriver ERa participants may indeed have been ineligible for CETA services because of that program's restrictions on earned income and assets.

***These points also argue against the possibility of program effects on members of the comparison group.

In addition to variables suggested by search theory, the study included the number of weeks from layoff to interview as an explanatory variable in the reemployment model. Reemployment rates after a layoff are a function of time; in general, the longer an individual's labor market behavior after layoff is observed, the more likely it is that he or she will again be employed. Workers in the sample were laid off from the summer of 1979 through the end of 1980, but they were all interviewed within a two-month period during the summer of 1982. Thus, the study observed workers for different periods of time after layoff and was required to control for this factor in a model of reemployment rates.**

There is one further consideration in specifying the model used to estimate program effects on the reemployment rate. The Chrysler Foundry comparison plant is unlike any of the other plants in the study, because its workers were eligible for Trade Readjustment Assistance upon layoff. As has been shown, one of the effects of TRA eligibility is to increase the unemployment benefits replacement rate substantially for Chrysler Foundry workers. Differences in the replacement rate alone are not sufficient to question the inclusion of Chrysler as a comparison plant, because the replacement rate is included in the model. But these TRA recipients were able to collect benefits for a minimum of fifty-two weeks—twice as long as the base unemployment insurance benefits period—and were also given the opportunity to enroll in subsidized training programs, for which they could receive an additional twenty-six weeks of benefits. For this reason, most models in this chapter are estimated with and without the Chrysler Foundry plant in the sample.* Finally, a constant and a dichotomous variable (equal to one if a worker was from a program-eligible plant and equal to zero otherwise) were added to the list of control variables, and the resulting model was then estimated. Coefficients and t-statistics appear in table A1 of the appendix.** The appendix table reports estimates including and excluding the Chrysler Foundry plant from the comparison sample.

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*The wage rate on the layoff job is also a candidate for predicting an individual's potential wage offer. When included with the other variables in the reemployment model, its sign was positive, as expected, but never statistically significant.

**There are two alternative approaches. The study could have truncated the observation period at the minimum for the sample, but that would have thrown away up to a year's worth of labor market history. A better approach, to be pursued in future research, is to estimate a waiting time model of the reemployment process. Such a model would explicitly recognize the time dependence of the reemployment rates and, therefore, could be used to show the program effects on reemployment at different times after layoff.

How may we be sure that all the appropriate control variables have been included in the model so that the coefficient of the program-eligible variable represents an unbiased estimate of the program's effect on reemployment? There is no direct test of this hypothesis, but an indirect check was performed. The same model was estimated with a different dependent variable, reemployed from layoff to the date of program start-up or not; results are shown in table A2 in the appendix. Aside from potential announcement effects, it is unlikely that the program affected reemployment rates before it began operation. A properly specified model should, therefore, show no difference between the reemployment rates of program-eligible and comparison workers during the preprogram period. Using both comparison plants, the study found a small difference in reemployment rates that is not significantly different from zero.

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*Given the large difference in unemployment benefits available to Chrysler workers as compared with the rest of the sample, the results could be sensitive to the specification of the benefits variable. To test this, the study reestimated the reemployment rate, employment rate, and average earnings models, substituting prelayoff earnings and the level of benefits (adjusted for the tax effect) for the replacement rate. It also substituted plant dummy variables for the constant and problem-eligible variable, allowing a separate intercept for each plant. In general, the estimated effects with Chrysler in the sample were sensitive to these changes. The estimated effects using Lear-Siegler as the comparison were *not* sensitive. Because there are no theoretical grounds to prefer one specification over the other, the form reported here gives the median estimate for the two-plant comparison group.

**Because the dependent variable, employed from layoff to interview or not, is dichotomous, the model was estimated by maximum likelihood probit techniques. Probit coefficients are, however, difficult to interpret directly, so the coefficients from the comparable linear probability model (OLS) have also been presented.

Additional confidence in the reemployment model may be derived from the fact that most of the estimated coefficients are estimated precisely and have the signs found in previous reduced-form models of the job search process (e.g., see Corson and Nicholson 1981; Neumann 1976). The signs also have plausible job search theory interpretations, although the interpretations may not be unique.* For example, being married or having children at home should increase the "costs" of being unemployed, reduce the reservation wage, and increase the probability of reemployment, as the study found. A higher unemployment benefits replacement rate, on the other hand, reduces the foregone earnings of being unemployed, and therefore, the probability of reemployment. A 10 percentage point increase in the unemployment benefits replacement rate is estimated to reduce the reemployment rate by approximately 3 percentage points, all other factors held constant.**

Age, years of general work experience, and years on the layoff job, although highly correlated, are each estimated precisely. Older workers are less likely to be reemployed. Other results not presented in the appendix suggest that this may primarily be due to the retirement of workers over age fifty-five. General work experience increases the probability of reemployment, which is consistent with the expectation that experience raises the potential offer wage rate. Tenure on the layoff job, however, is negatively related to reemployment. A potential explanation here is that, holding constant total work experience, a greater number of years with the layoff firm indicates a higher proportion of firm-specific human capital and, therefore, a lower potential wage offer from another firm.

The coefficients on the racial and education variables also have a plausible wage offer interpretation. If, controlling for other factors, blacks receive lower wage offers, as is consistent with the literature on discrimination, they should experience lower reemployment rates. Blacks are estimated to be less likely to find employment after being laid off, but the size of the effect, about 20 percent, suggests that more than wage rate discrimination is at work. Finally, years of education, which should increase the potential wage offer, increase the probability of reemployment.

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*Some variables in the reemployment model, such as race, may affect both the reservation wage and the wage offer. If the structural coefficients relating race to the wage offer and reservation wage are of opposite signs, the coefficient on race in the reduced-form model cannot be determined from theory.

**See Hamermesh (1977) for a survey discussion of the effects of UI on the duration of unemployment.

Table 16-6 presents the estimated program effects on the reemployment rates of program-eligible and participating workers. The line for program-eligible workers in the first panel, where the comparison group includes both Lear-Siegler and the Chrysler Foundry plants, shows that the actual reemployment rate is just the sample mean, 64.2 percent, as shown in table 16-5. The estimated reemployment rate in the absence of the program, 57.4 percent, is a prediction generated from the reemployment model, using the average characteristics of program-eligible workers as values for the control variables and setting the program-eligible variable to zero.* In essence, the study took the reemployment rate for the comparison group, adjusted it to reflect the differences in observed characteristics between comparison and program-eligible workers, and used the result as the estimated reemployment rate for program-eligible workers in the absence of the program. The program effect, 6.8 percentage points, is the difference between the actual and estimated rates. It is significantly different from zero at the 10 percent level for a two-tailed test.

As previously noted, the program effect on eligible workers is assumed to be a function of the program participation rate and the program effect on participants. Thus, the average program effect on participants, 13.9 percentage points, equals the effect on program-eligibles divided by the program participation rate, 0.488. The estimated program effect is larger when the comparison is made with only the Lear-Siegler plant; the second panel of table 16-6 shows an estimated program effect of 21.5 percentage points, making this comparison. Using both comparison groups, then, the study shows that the Downriver ERa program has had a relatively large effect on the reemployment rate of program participants, raising the rate from an estimated level of 50 to 60 percent in the absence of the program to 72 percent with the program.

Effects on Reemployment Rates by Type of Program Service

As previously described, all participants in the Downriver ERa program enrolled in a short job-seeking skills workshop and could subsequently make use of the placement services offered by the program. In addition, approximately half of the program participants also enrolled in classroom or on-the-job training. It is therefore

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*Because probit models are nonlinear, an estimated reemployment probability in the absence of the program was generated for each program-eligible worker, and the probabilities were averaged across the sample.

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Table 16-6

PROGRAM EFFECTS ON REEMPLOYMENT RATES

Type of Analysis	Actual Reemployment Rate	Estimated Reemployment Rate in the Absence of the Program	Program Effect[a]
Using Lear-Siegler and Chrysler Foundry as Comparison Plants:			
Program-eligible workers	64.2	57.4	6.8*
Program participants	72.1	58.2	13.9*
Using Lear-Siegler as the Comparison Plant:			
Program-eligible workers	64.2	53.7	10.5**
Program participants	72.1	50.6	21.5**

NOTE: A probit model of reemployment was estimated with program-eligible/comparison status and worker characteristics as right-hand-side variables. Coefficients and t-statistics are reported in table A 1 of the appendix. The program effect for eligible workers is the difference between the average predicted probability of reemployment, assuming program-eligible and comparison statuses, using the characteristics of participants to make the prediction. The program effect on participants equals the program effect on eligible workers divided by the program participation rate.

[a] Asterisks indicate that the program effect is statistically significant at the 5 percent (**) or 10 percent (*) levels (two-tailed test).

important to estimate the marginal effects of training over and above job search for at least two reasons. First, training has been a common prescription for reducing structural unemployment for over two decades. But the effectiveness of training in increasing employment has been shown in the literature to vary widely, depending upon the type of training offered, the characteristics of the trainees, and the structure and management of the training program. The question is whether training works in the particular context of the Downriver situation. Second, training is substantially more expensive to provide than job search and placement assistance. During the first phase of Downriver ERa operations, average training costs per trainee ($1,700) were more than twice the average costs of job search assistance ($628). Training should, therefore, produce benefits such that the rate of return to training is equal to or greater than that of job search assistance or other program strategies if it is to be a viable alternative to aid displaced workers.

The first question to ask in considering the impact of Downriver ERa program training is whether participants as a group received more training than they would have without the program. If retraining has any beneficial effects on the reemployment of displaced workers, the Downriver ERa program could have had an effect simply by increasing access to valuable training opportunities.

Table 16-7, which displays the percent of participants, program-eligible workers, and comparison workers enrolled in training or education programs after layoff, helps to answer this question. The last row of the table shows enrollment rates of 28 percent for program-eligible workers and 24 percent for the comparison group. This 4-percentage-point gross program effect on the enrollment of program-eligible workers increases to between 10 and 12 percentage points when controlled for differences between program-eligible and comparison workers in demographic and labor market characteristics.* Most of the increase results from controlling for the effect of TRA in the Chrysler Foundry plant, as this program offered—and actively encouraged—

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*The study estimated probit models of training enrollment after layoff, using the following right-hand-side variables: program-eligible, age, marital status, presence of children, education, work experience, layoff job tenure, unemployment benefits replacement rate, and ocupation of the layoff job. Models were estimated with and without the Chrysler Foundry plant in the comparison group. The estimated coefficients are reported in table A3 of the appendix.

Table 16-7

ENROLLMENT IN TRAINING AND GENERAL EDUCATION PROGRAMS AFTER LAYOFF BY TYPE OF PROGRAM

Type of Program	Program Participants	All Program-Eligible Workers	Comparison Workers
Percent Enrolled in:			
OJT programs	4.3	3.0	1.8
Vocational/technical programs	25.0	13.0	7.8
Business school	1.0	0.4	0.5
High school, GED, education	1.1	1.0	6.8
Community or junior college	14.9	8.0	6.5
College or graduate/ professional school	1.6	1.0	0.8
Other	2.6	2.0	0.8
Percent Enrolled in Any Training/Education Program[a]	47.9	28.0	23.9

NOTE: Enrollment is self-reported from the interview.

[a] This is less than the sum of the percentages by category because of multiple enrollments for individual workers.

subsidized training.* When the effect on the training enrollment of program-eligible workers is converted to a participant effect by dividing by the participation rate, participants are found to be approximately 20 percentage points more likely to enroll in training than they would have been in the absence of the program. Therefore, it does appear that the Downriver ERa program significantly increased participants' access to training.

There are also differences between participants, program-eligible workers as a group, and comparison workers in the type of training pursued. Downriver ERa training programs were mostly classroom programs in specific vocational or technical areas, and these programs were primarily run by local community colleges. This is the reason for the large proportions of program participants who indicated enrollment in either community college or vocational/technical programs; the Downriver ERa program was not listed as type-of-training option in the survey instrument. In contrast, a relatively large fraction of comparison workers were enrolled in general education programs, such as adult education or high school degree equivalency programs. Thus, the Downriver ERa program not only trained more participants than would have occurred in the absence of the program, but this training was also more likely to be in vocational/technical areas. The remainder of this section provides a preliminary assessment of the performance of these first-phase training programs in reemploying participants.

When comparing the relative impacts of training and job search assistance on reemployment rates, it is important to keep in mind the time frame for which reemployment rates are calculated. Consider the reemployment rates for participants at different points after the date they enroll in the program. Initially, the reemployment rates for participants engaged in training should be lower than those of participants who are exclusively involved in job search, because trainees spend their time studying, not searching. However, after the training period, the reemployment rates of trainees should begin to rise if the training is effective. Obviously, it would not be appropriate to evaluate the relative effect of training during the period in which participants are still involved with their studies, as some time must be allowed to determine whether trainees can, in fact, find jobs. At the same time, it is important to recognize that training does impose a time cost on participants that may be measured by their foregone earnings and included in any cost-benefit calculation.

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*Under Trade Readjustment Act regulations in force during the study period, workers not immediately able to obtain suitable employment and whose reemployment could be improved thereby, might be selected or referred to training by the state employment service responsible for disbursing TRA payments. Training could include either on-the-job or vocational training, with the preferred method of training offered without cost through the CETA program. If suitable training could not be provided in this manner, the employment service was authorized to reimburse the agency or prime sponsor identified to provide this training, so long as the training was approved by the state vocational education agency as meeting the standards of adequacy required by the applicable law.

Table 16-8 illustrates the time pattern of these reemployment rates. Reemployment rates have been calculated by the number of months from program enrollment, separately for participants enrolled in training and those only receiving job search assistance from the program.* Reemployment rates for participants in training are lower than those for job-search-only participants through the first six months of program enrollment, which is roughly consistent with the fact that Downriver ERa training programs average eight months in length. After that period, the reemployment rates for trainees are higher, ending with a 9 percent difference in the twelfth month after program ernollment. The differences are suggestive only. Because of the sample sizes, the standard errors are too large to draw statistically significant conclusions.

Moreover, these results have not been adjusted for the confounding effects of differences in average characteristics between the participants receiving training services and those receiving only job search assistance. It is likely that these two groups will have different characteristics because, as noted earlier, the operators of the Downriver ERa program selected participants for training according to some relatively well-defined guidelines. In particular, participants were selected for training if the program operators decided that they both needed the training to find a new job and that they had the abilities required to benefit from the training.

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*These data are time censored; that is, some participants are observed for less than twelve months after program enrollment and, at that time, are still not employed. Removing these observations from the sample would bias the reemployment rates upward; but, at the same time, an observation cannot provide any information about reemployment rates beyond the point of censoring. To deal with this problem, the reemployment rates are computed in a life table framework. For each period, the number of workers at risk of being unemployed is determined and divided into the number of workers finding employment in the period. This is an estimate of the probability of reemployment in that period, given that a person has not yet found employment, h_t. The reemployment rate through period T is calculated as

$$1 - \pi_{t=1}^{t} (1 - h_t).$$

Table 16-8

REEMPLOYMENT RATES BY MONTHS FROM PROGRAM ENROLLMENT

Months from Program Enrollment	Participants Enrolled in Classroom Training	Participants Enrolled in Job Search Only	Difference in Reemployment Rates
1	4.5 (2.5) [a]	6.1 (2.9)	-1.6
2	7.5 (3.2)	12.1 (3.9)	-4.6
3	13.4 (4.0)	19.7 (4.7)	-6.3
4	20.9 (4.7)	24.2 (5.1)	-3.3
5	31.3 (5.3)	28.8 (5.4)	2.5
6	32.8 (5.7)	33.3 (5.6)	-0.5
7	40.3 (5.6)	37.9 (5.8)	2.4
8	49.3 (5.6)	42.4 (5.9)	6.9
9	52.2 (5.9)	47.0 (5.9)	5.2
10	53.6 (5.8)	48.5 (6.1)	5.1
11	56.5 (5.7)	50.0 (6.1)	6.5
12	59.3 (5.6)	50.0 (6.2)	9.3

NOTE: The sample includes program participants, enrolled in job search only or classroom training, who were not reemployed before program enrollment. There are sixty-six job search and sixty-seven classroom training observations. To adjust for the censoring of the observation period, these reemployment rates are estimated from the period-by-period conditional probabilities of reemployment in a life table framework.

[a] Standard errors of the reemployment rate are in parentheses.

Table 16-9 summarizes the findings about the marginal effects of training on reemployment rates. The first column shows actual reemployment rates for participants by the type of program service received. The second column displays the difference between reemployment rates for trainees and participants who only received job search and placement assistance; this is the unadjusted marginal effect of training on reemployment rates. Note that the reemployment rates in table 16-9 are higher than those in table 16-8. This is because the rates in table 16-9 are measured over the entire period from layoff to interview, which makes them comparable to the rates in table 16-6, rather than only until twelve months after program enrollment. But the results about the marginal impact of training in both tables are the same—trainees are 9 percent more likely to be reemployed than job-search-only participants.

The marginal effect of training is cut in half when the data are adjusted for differences among the participants. These results are displayed in the third column of table 16-9. To obtain these adjusted results, the study estimated a reemployment model for the participants only. Right-hand-side variables included all the control variables used earlier, dichotomous variables indicating enrollment in the various types of training, and variables representing the occupation of the layoff job. The occupation variables were added to control further for the effects of differences in marketable skills between those participants who did and did not receive training. For this reason, the variables were specified at a detailed level, distinguishing assemblers from machine operators, for example, in the general class of operatives. As there are no good measures of ability to benefit from training, it is not possible to assert that this model adequately controls for bias introduced by the assignment of treatments. Furthermore, there may be unmeasured characteristics of the participants that differ between training and nontraining groups, such as motivation.* Because of these caveats, the adjusted estimates of marginal training effects on reemployment must be treated as preliminary and interpreted with caution.

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*The study estimated several instrumental variables models treating the training variables as endogenous, and the resulting estimates of the marginal training effects were very unstable. This is not surprising, because it is very difficult to define instruments that are correlated with the propensity to train but not with the probability of reemployment. This difficulty is compounded by the propensity of Downriver EPs staff to assign participants to program services based on their relative employability. In addition, because of the uniqueness of the unemployment problem being studied, a fixed-effects approach to dealing with unmeasured heterogeneity is not feasible.

Table 16-9

REEMPLOYMENT RATES OF PARTICIPANTS, BY TYPE OF PROGRAM SERVICE

Program Service	Actual Reemployment Rate	Marginal Effect of Training on Reemployment Rates: Unadjusted [a]	Adjusted [b]
Job Search and Placement Assistance Only	67.1	--	--
Any Training Program	73.9	9.0	4.3
High-technology class-size programs	50.0	-17.1	-18.9
Other class-size programs	80.0	12.9	11.0
Existing programs offered through local educational institutions	73.9	6.8	7.2
On-the-job training [c]	81.3	26.7	1.9

[a] This is the difference between training and job-search-only reemployment rates.

[b] A probit model of reemployment with variables indicating the type of service received was estimated for participants only. Reemployment rates by service were predicted, using the average characteristics of participants.

[c] On-the-job training recipients are reemployed if they held a job after exit from the program.

Not only is the size of the marginal training effect reduced, but the effect is not statistically significant in the adjusted results. This may be a problem resulting from the small sample size; only 165 participants were available to estimate the reemployment model. There are, however, some interesting differences in the estimated effects by type of training. The high-technology class-size programs in numerical control machine operation and electronics, for example, appear to be less effective than job search assistance only. This result may reflect operational problems encountered with one of these courses, which was run by a proprietary institution under contract to the Dowriver ERa program. Other class-size programs designed specifically for the program seem to have worked better. Participants enrolled in existing training programs at local educational institutions also had higher reemployment rates than job-search-only participants. Finally, the reemployment rate for participants in on-the-job training (OJT), measured by only counting as reemployed those individuals who were employed after their OJT contracts had ended, is not significantly different from the job-search-only group in the adjusted results. This is consistent with anecdotal evidence that on-the-job training was reserved for participants who had neither marketable skills nor an ability to benefit from classroom training programs.

In summary, although the Downriver ERa program had a large and statistically significant effect in increasing the amount of training received by participants, trainees as a group were not reemployed at a significantly higher rate than those participants who just received job search and placement assistance. This finding does not necessarily imply that training is not a cost-effective option for assisting the reemployment of displaced workers served by this program. Such a finding may be due to several measurement problems. First, and most important, if the most "needy" participants were assigned to training but the study has not completely controlled for this factor, the estimated training effect could be confounded with a worker's potential labor market success in the absence of the proram. Second, though statistically insignificant in this small sample, the size of the estimated marginal effects of some training programs suggest that they may have been effective.

Third, the study may be understating the ultimate effect of training if trainees are not observed for a sufficient length of time after they complete their courses. Trainees have to search for a job that uses their new skills. At first glance, it does not seem that this is a serious problem for this study. Most participants enrolled in the Downriver program during the third quarter of 1980, and trainees spent an average of eight months in training. Since the participants were interviewed during the summer of 1982, this gives an average of twelve months to observe trainees after they exit their programs. However, the labor market in the Detroit area was one of the most depressed in the nation during this period and, therefore, job finding may have been difficult, particlarly for entry-level positions. In addition, Downriver program staff believe they have been "ahead of the market" in developing some of their classroom programs; although demand for certain skills was in evidence, the volume of this demand developed more slowly than anticipated. Further work on the patterns of reemployment rates over time for trainees and nontrainees may determine whether the relative reemployment rates for trainees had stabilized at the interview or were still growing.

Program Effects on the Employment Rate from Layoff to Interview

Program effects on reemployment rates, though important, do not completely describe the impact of the Downriver ERa program on the labor market success of participants. The employment rate from layoff to interview—weeks employed divided by weeks in the period—is a more comprehensive measure of time at work. In addition to reflecting whether an individual was reemployed, the employment rate varies with the number of weeks from layoff to the first postlayoff job and with the stability of postlayoff employment through the interview date. For example, even though the program had a positive effect on reemployment rates, it could have no effect on the employment rate from layoff to interview if participants took a long time to find that first postlayoff job and, having found it, stayed on that job for only a few weeks.

The approach used for measuring program effects on the employment rate is similar to that used in measuring the reemployment rate effects. First, models were fitted to obtain the program effects on eligible workers, holding constant worker characteristics.* Then, program effects on participants were calculated by dividing the program effect on eligibles by the program participation rate.

Using either comparison group, as shown in table 16-10, the Downriver ERa program is estimated to have had a statistically significant (11 percentage point) effect. In this case, the coefficient on the program-eligible variable in the regression model measures both the program effect and the effect of differences in unmeasured

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*In addition to the variables in the reemployment rate model, the study included dichotomous variables for the layoff occupations of craftsworker, white-collar worker, and service worker/laborer. Although these variables were not significant in the reemployment rate model, the study did find that, holding constant the other included worker characteristics, craftsworkers have a higher employment rate from layoff to interview than operatives (the residual category). All models were estimated by ordinary least squares, with and without the Chrysler Foundry plant in the sample.

Table 16-10

PROGRAM EFFECTS ON THE EMPLOYMENT RATE FROM LAYOFF TO INTERVIEW

Type of Analysis	Actual Mean Employment Rate (%)	Estimated Mean Employment Rate in the Absence of the Program	Program Effect[a]
Using Lear-Siegler and Chrysler Foundry as Comparison Plants:			
Program-eligible workers	32.4	27.1	5.3**
Program participants	32.9	22.1	10.8**
Nonparticipating eligible workers	32.0	32.0	0
Using Lear-Siegler as the Comparison Plant:			
Program-eligible workers	32.4	26.7	5.7*
Program participants	32.9	21.3	11.6*
Nonparticipating eligible workers	32.0	32.0	0

NOTE: The employment rate equals weeks employed from layoff to interview divided by total weeks in the period.

[a] Regression models were used to estimate program effects on eligible workers. Coefficients and t-statistics are reported in table A4 of the appendix. Assuming no program effect on nonparticipating, eligible workers, the program effect on participants equals the program effect on eligibles divided by the program participation rate. Asterisks indicate that the program effect is statistically significant at the 5 percent (**) or 10 percent (*) levels (two-tailed test).

characteristics on the outcome variable. Therefore, the results in this section must be interpreted with caution.

SUMMARY AND CONCLUSIONS

This chapter has presented strong evidence that the first phase of the Downriver ERa program had a relatively large effect on the reemployment rate of participating displaced workers. The study attempted to determine the relative effects of retraining and job search assistance on reemployment, but small sample sizes and specification problems preclude firm conclusions in this area. Turning to other measures of labor market activity, large positive program effects were found on the employment rate from layoff to interview.

Finally, it is important to place these results in their larger context. The conclusions drawn here apply only to the Downriver ERa program. Generalizations from these specific findings to new directions in public policy must be made with care. All the results are dependent in some measure on the environment in which the program operated and the way in which it was managed.

Table A1

MODELS OF REEMPLOYMENT FROM LAYOFF TO INTERVIEW

Variable	Using Lear-Siegler and Chrysler Foundry as Comparison Plants: OLS	Using Lear-Siegler and Chrysler Foundry as Comparison Plants: Probit	Using Lear-Siegler as the Comparison Plant: OLS	Using Lear-Siegler as the Comparison Plant: Probit
Constant	1.03 (5.36)[a]	1.97 (3.05)	.942 (4.36)	1.67 (2.36)
Program Eligible	.069 (1.88)	.222 (1.89)	.108 (1.89)	.336 (2.49)
Age in Years	-.025 (5.83)	-.092 (5.67)	-.025 (5.02)	-.087 (4.83)
Black	-.234 (6.57)	-.700 (6.19)	-.205 (5.00)	-.623 (4.82)
Not Married	-.111 (2.56)	-.344 (2.42)	-.095 (1.86)	-.296 (1.77)
Has Children	.008 (.208)	.010 (.074)	.006 (.138)	-.002 (.012)
Years of Work Experience	.022 (5.06)	.082 (5.01)	.020 (4.14)	.074 (4.05)
Years on Layoff Job	-.008 (3.20)	-.028 (3.24)	-.007 (2.48)	-.025 (2.60)
Years of Education	.037 (4.86)	.115 (4.80)	.031 (3.62)	.096 (3.55)
Weeks from Layoff to Interview	.0002 (.171)	-.0001 (.048)	.001 (1.19)	.003 (.947)
Unemployment Benefit Replacement Rate	-.267 (4.24)	-.856 (4.19)	-.303 (2.30)	-1.00 (2.39)
Sample size	706	706	536	536

NOTE: The sample includes all program-eligible and comparison workers in the analysis sample with complete data for the explanatory variables.

[a] t-statistics are in parentheses.

Table A2

PROBIT MODELS OF REEMPLOYMENT FROM LAYOFF TO PROGRAM START-UP

Variable	Using Lear-Siegler and Chrysler Foundry as Comparison Plants:	Using Lear-Siegler as the Comparison Plant:
Constant	-.353 (.460) [a]	-.620 (.760)
Program Eligible	-.088 (.443)	-.281 (1.24)
Age in Years	-.062 (2.65)	-.067) (2.67)
Black	-.417 (2.41)	-.371 (2.04)
Not Married	-.536 (2.44)	-.572 (2.48)
Has Children	-.200 (1.06)	-.253 (1.28)
Years of Work Experience	.057 (2.51)	.061 (2.64)
Years on Layoff Job	-.028 (1.95)	-.025 (1.74)
Years of Education	.068 (1.82)	.082 (2.05)
Weeks from Layoff to Program Start	.032 (2.41)	.034 (2.35)
Weeks from Layoff to Program Start, Squared (x100)	-.002 (.101)	-.014 (.523)
Unemployment Benefits Replacement Rate	-.872 (2.32)	-.250 (.434)
Sample Size	710	539

NOTE: The sample includes all program-eligible and comparison workers in the analysis sample with complete data for the explanatory variables.

[a] t-statistics are in parentheses.

Table A3

PROBIT MODELS OF POSTLAYOFF ENROLLMENT IN TRAINING OR EDUCATION PROGRAMS

Variable	Using Lear-Siegler and Chrysler Foundry as Comparison Plants:	Using Lear-Siegler as the Comparison Plant:
Constant	-1.90 (3.60)[a]	-1.36 (2.14)
Program eligible	.370 (2.83)	.456 (3.06)
Age in years	-.001 (.089)	-.001 (.080)
Black	.294 (2.44)	.164 (1.17)
Not married	-.038 (.266)	.060 (.346)
Has children	.036 (.267)	.102 (.633)
Years of work experience	-.016 (2.05)	-.014 (.828)
Years on layoff job	-.002 (.214)	.009 (.815)
Years of education	.088 (2.98)	.073 (2.13)
Occupation of layoff job:		
White collar worker	-.229 (.822)	-.327 (1.04)
Crafts worker	-.140 (1.05)	-.213 (1.32)
Service worker/laborer	.062 (.296)	-.371 (1.08)
Unemployment benefits replacement rate	.503 (2.34)	.318 (.703)
Sample size	691	526

NOTE: The sample includes all program-eligible and comparison workers in the analysis sample with complete data for the explanatory variables.

[a] t-statistics are in parentheses.

Table A4

OLS MODELS OF EMPLOYMENT FROM LAYOFF TO INTERVIEW DATE

	Using Lear-Siegler and Chrysler Foundry as Comparison Plants (N=659)	Using Lear-Siegler as the Comparison Plant (N=508)
Variable	Employment Rate from Layoff to Interview [a]	Employment Rate from Layoff to Interview
Constant	.375 (3.89)[b]	.404 (3.34)
Program Eligible	.053 (2.12)	.057 (1.91)
Age in Years	-.013 (4.50)	-.014 (4.00)
Black	-.144 (5.93)	-.141 (4.81)
Not Married	.106 (3.65)	.122 (3.39)
Has Children	-.082 (.303)	-.021 (.636)
Years of Work Experience	.012 (4.32)	.013 (3.78)
Years on Layoff Job	-.007 (4.09)	-.007 (3.37)
Years of Education	.025 (4.72)	.025 (4.02)
Unemployment Benefits Replacement Rate	-.002 (3.59)	-.002 (1.89)
Occupation of Layoff Job:[c]		
White-collar[d]	.019 (.349)	.019 (.286)
Craftsworker	.064 (2.42)	.048 (1.49)
Service worker/ laborer	-.015 (.365)	-.014 (.223)

NOTE: The sample includes all program-eligible and comparison workers in the analysis sample with complete data for the explanatory variables.

[a] Defined as the number of weeks employed between layoff and the interview date, divided by the total number of weeks in the period.

[b] t-statistics are in parentheses.

[c] Base category is operatives.

[d] Includes professional, technical, managerial, and clerical workers.

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17

BURT S. BARNOW

The Downriver Community Conference Economic Readjustment Activity Program: Reactor Comments*

The chapter by Smith, Kulik, and Stromsdorfer on the Downriver Economic Readjustment program (Downriver ERa) presents the first major impact evaluation study of a program for displaced workers in recent years. A major strength of the chapter is that it recognizes the selection bias problems that frequently plague evaluations of nonexperimental programs. To resolve this problem, the study compared all those eligible for the program with workers from other plants and used these estimates to compute the effects on participants. This approach is a good method of dealing with the problem of self-selection into the program.

There are three areas of concern, however, with the technical approach of the paper: (1) the choice of outcome variables studied, (2) the time period covered by the evaluation, and (3) the choice of comparison plants. After discussing these three issues, the policy implications of the study will be addressed.

A fundamental issue in all evaluations is the choice of outcome measures. There are many criteria upon which the Downriver program may be judged, but the chapter focuses almost entirely on the reemployment rate—the percentage of people who ever worked at all after being laid off. Although this is an outcome of interest, it unfortunately reveals very little about the project's worth. The reemployment rate counts a worker who holds a temporary three-week job during the two-year postlayoff period exactly as it counts someone who works six months, one year, or the entire two-year period. Although the extremely low reemployment rates for both eligible and comparison plant workers tell much about the labor market situation in the Detroit area—about one-half of the comparison plant workers and one-third of the program-eligible workers never worked at all during the period—this outcome variable provides no information to help decide how substantial are the benefits of the Downriver program.

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*These comments are those of the author alone and do not necessarily represent the position of the U.S. Department of Labor.

The study also uses the employment rate as a second outcome measure. The employment rate is defined as the percentage of time employed from layoff to the interview. Although this measure is more useful than the reemployment rate, it fails to capture any information about the quality of jobs people hold. Two workers who have much different wages but work the same amount of time are considered equal by the study.

Earnings comprise a more useful outcome measure because they incude both the quantity of employment and the quality of the job as measured by the wage. Earnings gains are the preferred measure because they also permit a direct comparison of the benefits of the program to the costs. Of course, earnings should not be the sole outcome examined, for it is useful to see whether earnings gains result from increases in employment, wage rates, or both.

In an earlier paper, Smith, Kulik, and Stromsdorfer did estimate the impact of the program on earnings and wage rates. Among participants who worked in the postlayoff period, the mean wage was $8.20 per hour (compared to a mean wage of $9.20 per hour on the prelayoff job), with an estimated program impact of between $1.35 and $2.50 per hour. The estimated impact on earnings for all participants, whether they worked after being laid off or not, ranged from $64 to $95 per week. These estimates are higher than one might expect, and it would have been useful for the estimates to be included in the chapter.

A second area of concern is the time period covered by the evaluation. By conducting the analysis from the time of layoff to a point in time approximately two years later, three distinct periods for the participants are combined: (1) the time between layoff and enrollment in the program, (2) the period in which participants were enrolled in the Downriver program, and (3) the postprogram period. The period between layoff and enrollment should be excluded from the evaluation, if possible, because labor market experiences during this period cannot be attributed to the program. It is useful to study the in-program experiences of participants, but for evaluation purposes it is preferable to consider the in-program and postprogram periods separately. By separating these periods, the study could examine the benefits of the program in the postprogram period as well as the opportunity costs of the program during the in-program period.

It should be noted that there is no easy way to divide the time of the comparison plant members into the equivalent of preprogram, in-program, and postprogram periods. Because there was a great deal of variation in the three periods for the treatment group, it would be necessary to simulate the length of time in each status for members of the comparison group. It may be useful for the researchers to try such simulations in future work on this project.

The third area of concern is the selection of comparison plants. Ideally, workers within each plant should be assigned randomly to treatment or control group status, but the Downriver design precluded a classical experimental design. The researchers had to rely on finding comparison plants that matched those in the program as closely as possible. Even if the observed characteristics of the workers in the two groups appeared to be similar, the job skills of workers in one set of plants may have been more marketable in the Detroit area, leading the study analysis to find a biased estimate of the impact.

There were, however, some significant differences between workers from the two groups. Unless the study's model is perfectly specified, these differences may bias the analysis. For example, when compared to the program-eligible workers, comparison group workers were older, more often married, more likely to be black, more likely to be craftsworkers, and had lower wages. Layoffs for the comparison group occurred significantly later than for the program-eligible workers, so they were not tracked as long. This could easily cause serious problems in estimating the program's impact, even though the study did use one simple method to attempt to correct this problem.

Finally, as the chapter points out, the comparison plant workers differed very greatly in the mean earnings replacement rate of their unemployment benefits. At one of the two comparison plants, the replacement rate was about 50 percent, which was the replacement rate for the program-eligible group. At the other plant, however, the earnings replacement rate was approximately 100 percent because of Trade Adjustment Assistance (TAA) payments. Obviously, workers at that plant had a much different incentive to search for work. In retrospect, it would clearly have been better to pick comparison plants with earnings replacement rates more like those of the program-eligible workers, even if it were necessary to vary some of the other characteristics a bit more.

Displaced workers are currently a major concern of those in the employment and training field, and Title III of the Job Training Partnership Act (JTPA) authorizes programs to serve such workers. As the first major evaluation effort in this area, the Downriver ERa program will be viewed widely as an example of what may be expected from such programs. In spite of the evaluation study's careful caveats, however, there is a danger that some may read too much into the findings. It is therefore worth calling attention to some of the reasons why it is unwise to generalize too much from the Downriver evaluation. These reasons are as follows:

- **Programmatic differences.** In the Downriver program, classroom training participants receive stipends, but in JTPA participants are unlikely to receive stipends. This is likely to affect participation rates in JTPA programs as well as their impact.

- **Environmental differences.** Detroit is a large urban area with an extremely high unemployment rate. It would be dangerous to extrapolate the Downriver ERa program findings to areas with much different economies.

- **Small sample problems.** Regardless of how "typical" any single demonstration is, it is always unwise to expect replications to produce the same results.

- **Technical problems.** As noted earlier, some of the technical problems in the evaluation may have led to biased estimates of the program's impact.

- **Selection bias problems.** The Downriver ERa program staff made concerted efforts to assign individuals to treatments they felt were most appropriate. Thus, as the evaluation study stresses, one should *not* conclude that training is less effective than job search assistance.

The most important lessons from the Downriver ERa demonstration program and its evaluation study deal less with the specific impacts found than with the potential of the programs. The study shows that it is possible to run programs for displaced workers and that a significant proportion of those eligible will participate. It also shows that there is a wide range of possible activities that can be offered, from simple job search assistance to long-term classroom and on-the-job training. Finally, the study shows that it is possible for the benefits of such programs to exceed their costs.

Policy Alternatives

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KENNETH MCLENNAN

Policy Options to Facilitate the Reemployment of Displaced Workers

Structural economic change resulting from improved productivity growth, increased international trade, and the movement of capital and labor to those industries in which the United States has a comparative advantage is essential to raising the nation's standard of living. In the long run, continuous changes in the distribution of resources, within and among industries, are crucial to the expansion of employment opportunities for current and future generations of workers, as well as to increases in their real earnings. The benefits of moving labor and capital resources to their most productive use are greatest for consumers and for the workers who move quickly to expanding job opportunities in either their own firm or industry or in a different industry or occupation. For some firms, however, structural change results in fewer jobs or the loss of all jobs. This means permanent job displacement for some workers and the prospect of long-term unemployment.

Since society receives "external benefits" from structural change, it has long been recognized that public policy has an important role in

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facilitating the ability of the labor force to adjust to change. The justification for some form of public policy intervention in labor and education markets is not in dispute. The major issues are what level of intervention is necessary, what kinds of policies are most likely to improve the operation of these markets, and how the costs associated with the inevitable readjustment of permanently displaced workers should be shared among different groups of workers, businesses, and various levels of government. This chapter discusses the potential magnitude of the displacement problem and presents federal policy options for assisting those workers adversely affected by structural change in the economy.

DEFINING THE DISPLACED WORKER POPULATION

Most workers who experience unemployment are not permanently displaced. By far the largest group of workers laid off during any period of time are unemployed because of cyclical, not structural, changes in labor demand. For example, most of the increase in unemployment since the 1978 peak of the business cycle, when unemployment was close to the 6 percent level generally believed to represent full employment, was due to layoffs during the cyclical downturn, which bottomed out in 1981, with unemployment rising to 10.8 percent by December 1982. The proportion of those unemployed because of layoffs rose from 42 percent in 1978 to 59 percent in 1982 (*Economic Report of the President* 1983). The remaining unemployed workers in each year were either voluntary quits or new entrants and reentrants to the labor force who were unable to find jobs. Some of these groups were unemployed because of supply-side structural labor market problems, including insufficient skills, lack of labor market experience, and other barriers to their employability. For policy development purposes, however, these labor force participants are not generally included in the displaced worker population.*

In 1982, the dislocated worker population was a relatively small subset of the 59 percent of the unemployed who were laid off in that year. After the recession, most of these workers will return to work with their previous employers, although on average they will have suffered some seventeen weeks of unemployment.

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*The population of displaced workers is increased substantially if the effect of structural change on labor force entrants and reentrants is used as a criterion for defining the displaced population. For these groups, basic education, school-to-work transition, labor standards legislation, and changes in wage taxes as a source of financing government programs become important policy issues. See McLennan (1982).

If length of time is used as the criterion for defining displaced workers, the population of labor force workers who have experienced *permanent displacement* has been extremely small. If declining employment by industry is used as a proxy for structural change in 1980, about 0.5 percent of the labor force had been laid off from such industries and had suffered unemployment for more than eight weeks (National Commission on Employment Policy 1982). Less than 0.1 percent of the labor force was unemployed from these industries and experienced twenty-six weeks of unemployment. Indeed, if the industry from which the worker is laid off experiences an absolute secular decline in employment, one research study (Bendick 1983) estimates the permanently displaced worker population to be about one hundred thousand per year.*

The assumption that workers must be laid off from an industry in which employment is declining *absolutely* before they are considered structurally unemployed is a rather severe constraint resulting in a relatively low estimate of the magnitude of the problem. For some industries that are characterized by a few employers with a dominant share of the market and that produce a homogeneous product in a few major locations, an absolute decline in industry employment may be a reasonable assumption for estimating the number of structurally unemployed workers in the industry. But, in many industries a decline in employment by firm or by establishment may be the relevant unit with which to measure permanent displacement. Workers who are laid off by the closing of a small branch of the company may be permanently displaced because the only other company facility is perhaps in another region of the country.

Employment frequently declines in a local labor market because more jobs are lost through establishment closings than are gained through new plant formations. On the basis of net establishment formation, the job loss, as a proportion of the labor force, was about 5 percent per year in the late 1970s, and considerably higher in the early 1980s as the recession deepened (Harris 1983**). Since net establishment formation is related to the business cycle, most of these workers will be reemployed during the economic recovery or will find jobs in firms that continue to hire during the recession. This concept leads to a much broader definition of structural unemployment and includes many workers who are cyclically unemployed.

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*For somewhat larger estimates using criteria that combine declining employment with length of unemployment, see Baldwin and Donohue (1983).

**An interesting feature of Harris' (1983) excellent review of plant closing studies is that the rate of plant closing is higher in areas of employment growth simply because more business formation leads to more potential for plant closings. Consequently, the rate of plant closings under this criterion of structural change is currently greatest in the South and Pacific regions, not the upper Midwest and Northeast.

The stereotype of the permanently displaced worker is someone who is laid off from a firm in basic manufacturing. In reality, considerable permanent displacement occurs in nonmanufacturing industries. Although the estimate of one hundred thousand permanently displaced workers per year may be too conservative, the layoff of workers due to establishment or branch closings with no account taken of the length of unemployment is too high an estimate. A criterion that combines involuntary layoff and a length of unemployment is a more accurate view of what is meant by displacement. In a dynamic labor market, our concern is not only with actual displacement, but also with reasons for *long-term* displacement.

In a comprehensive overview of research on the economic costs of dislocation (Gilman 1979), estimates of permanent displacement were made for several years by using layoff and recall data. This analysis shows that the proportion of the unemployed who were actually laid off with no recall varied from a low of about 12 percent in 1978 to a high of about 21 percent in the severe recession of 1975.

In 1981, there were about 2.8 million job losers, of whom about 600,000 (21 percent) experienced twenty-seven or more weeks of unemployment. Since most of these workers were laid off because of plant closings or permanent reductions in the work force, with no indication that they would be recalled, 600,000 represents an approximate estimate of the structural component of those who were unemployed during the year.* In 1982, almost 4.2 million workers lost their jobs without recall and about 1 million (23.6 percent) experienced seventeen weeks or more of unemployment.

The fact that a larger proportion of workers experienced long-term unemployment in 1982 than in 1981 suggests that there is still a small cyclical component within these estimates of the magnitude of the annual structural unemployment problem. Studies of previous recessions have shown that even in a year of severe recession, 80 percent of these job losers can expect to return eventually to their same employer (Gilman 1979). If it is assumed that the 1981-1982 recession had a larger structural component than in previous recessions, and that only 70 percent of job losers can expect to return eventually to their previous employment, the estimate is in the 600,000 to 1 million range for the annual number of those structurally unemployed during an extremely severe recession.

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*Unpublished data from Current Population Survey supplied by Debra Klein, U.S. Department of Labor, Bureau of Labor Statistics. A small proportion of these workers may have been laid off for misdemeanors, etc. On the other hand, some of those laid off with a recall and not included in the 2.8 million job losers could become permanently displaced if the plants are eventually closed. For a profile of job losers in 1982, see Bednarzik (1983).

In a study (Jacobson 1983) of permanent displacement in two local communities with a high concentration in manufacturing employment, it was found that, even in severely depressed labor markets, normal attrition rates (through voluntary quits to seek alternate jobs, retirements, and labor force withdrawals) were sufficiently large to offset displacement at the aggregate industry levels. In any labor market, displacement resulting in long-term unemployment will only occur if employment declines are absolutely large, as well as relatively large compared to the overall attrition rate in the local labor market.

At the disaggregated industry level, however, a small amount of displacement did occur in several industries. In addition, as pointed out by Jacobson (1983), the local labor markets were studied during a period of general economic prosperity (1960-1970). Consequently, if the 1980s prove to be a less prosperous period, there will be a greater amount of displacement in specific local labor markets.

Labor market research clearly shows that, in the past, the actual amount of long-term displacement of workers has been small. Labor markets are dynamic and adjustments occur rapidly, even when there is no government intervention. Research also shows, however, that among the small proportion of the labor force that is permanently displaced, many workers will experience permanent earnings losses as they are forced to relocate to jobs with lower wage rates. This is especially true for those displaced from some manufacturing industries, if in the past they have received an "economic rent" through policies that raised their wage rates above the average rate for workers with similar skill and productivity levels.

From a policy point of view, the magnitude of the problem is such that, with the correct instruments, it should be possible to facilitate the readjustment of those displaced. A large proportion of those workers are likely to be concentrated in industries that have lost their comparative advantage, both because they are located in high-cost production areas of the United States and because there has been a large increase in the worldwide capacity to supply the world market with products of particular industries. This is currently a long-term problem facing some American basic manufacturing industries, such as steel, autos, and some industries within the textile sector. Although the problems of workers in these industries are highly visible, a significant amount of displacement also occurs in the nonmanufacturing sector, and public policy should concentrate on facilitating the readjustment of workers in *all* industries.

EMPLOYMENT, TRAINING, AND EDUCATION POLICY TRENDS AND DISPLACED WORKERS

The phenomenon of worker displacement is not new. Indeed, the current annual amount of displacement is probably less than the magnitude of displacement that occurred in agricultural employment throughout the 1950s and 1960s. Over the past two decades, many attempts have been made to develop "positive" labor market policies to deal with the problem of worker displacement.* Inevitably, the need for labor market policies to adapt to changing economic and political priorities among different labor force groups resulted in an ad hoc approach to the problem of worker displacement.

Shifting Priorities of Labor Market Policies

Over the past two decades, the goals of employment and training policies have changed according to the perceived nature of the unemployment problem. In the early 1960s, the role of employment policy was subordinate to monetary and fiscal policies that were the primary instruments for reducing *cyclical unemployment*. Employment policy was aimed at equipping laid-off workers with new skills that would be in demand during the subsequent economic growth or development of new industries. This policy represented an effort to reduce *structural unemployment*, and the emphasis on skill training culminated in the passage of the Manpower Development and Training Act (MDTA) of 1962.

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*The concept of positive employment policies has been implemented in a number of European countries during the past five years. These policies, which sometimes also address cyclical unemployment, are intended to assist workers to adjust to future labor demand. The Organisation for Economic Cooperation and Development (OECD) in Paris has assessed the European experience. For a brief summary, see Dymond (1981). Also, the concept of a "positive" policy in the United States dates back to the beginning of our federal manpower training programs. See Bakke (1963).

Employment policy in the 1960s also continued to focus on assisting workers who experienced *frictional* unemployment during periods of temporary layoffs in all phases of the business cycle. Labor market information was supposed to be provided to workers who were firmly attached to the labor force but who were seeking alternative sources of employment. Unemployment Insurance (UI) was also provided to assist those who were experiencing this short-term unemployment. This form of income maintenance for experienced workers was designed to contribute to the overall goal of preventing the cause of the temporary layoff from developing into a more permanent form of severe economic dislocation. During this period, however, employment and training policies more than ever before attempted to reduce the *structural unemployment* caused by unusual changes in the demand for labor brought about by technological change, changes in trade patterns, and interruption of crucial material supplies.

In the latter part of the 1960s, the unemployment rate was low. In the face of low levels of overall unemployment, however, the unemployment rate among some groups—youths, women, and minorities—remained relatively high. Consequently, in the late 1960s and early 1970s, policy concerns shifted to disadvantaged groups because it became apparent that these low-skilled workers experienced hiring difficulties in the labor market. The high incidence of unemployment among any labor force group, whether women, youths or blacks, gradually gave shape to a new definition of *structural unemployment*—corresponding to high unemployment among *socially and economically disadvantaged* groups.

High unemployment among these demographic groups is clearly a symptom of a multifaceted problem reflected in lack of skill, institutional arrangements that result in wage levels above the productivity level of these workers, and labor market discrimination. The policy response was to pursue antidiscrimination policies and train the economically disadvantaged through a series of categorical programs frequently tailored to the groups with the highest rates of unemployment, regardless of the cause of their unemployment.

After a period of lack of success in reducing high unemployment rates among specific demographic groups, coupled with higher overall rates of unemployment in the economy, employment policy in the early 1970s shifted toward "direct job creation" as a way of reducing both the high incidence of unemployment among specific groups, as well as of reducing cyclical unemployment. Direct job creation in the form of public employment was reoriented toward the economically and socially disadvantaged. Increased attention was also devoted to testing attempts to reduce unemployment through subsidizing the employment of economically disadvantaged groups in the private sector (e.g., wage subsidies to employers).

After two decades of experimenting with various approaches, we now know that it can be misleading to treat the high unemployment of a single demographic group as a uniform problem for an entire group. We now know, for example, that much of the high rate of unemployment among youth is due to *frictional* unemployment. However, a small proportion of youths are economically and socially disadvantaged. These young people have a serious supply-side structural unemployment problem that is quite different from the frictional problem faced by most young people in the labor market.

Concurrently, with the shift of training policy toward targeting assistance to a variety of disadvantaged groups, the federal government embarked on a series of ad hoc adjustment assistance programs for narrowly defined groups of experienced workers who were laid off because of changes in public policy. During the late 1960s and early 1970s, the U.S. Department of Defense expanded its Economic Adjustment Program to assist workers and communities when defense policy changes resulted in base closure, or when there were major cutbacks in contracts with private organizations in a community that was dependent upon defense expenditures as a major source of employment.

Adjustment assistance was also provided to federal career employees who lost their jobs because of defense policies. The assistance included job transfers (with the government paying all relocation costs) and priority hiring for other federal jobs (with salary retention for two years if the other job is lower on the federal salary schedule). All civilian federal employees affected by defense policies are, of course, also protected by the rather generous benefits and protection provisions that accompany any reduction in the size of the federal work force.

In some cases, the workers affected by changes in regulations and other government policies were singled out for special adjustment assistance. For example, under the Airline Deregulation Act of 1978, airline pilots could claim assistance if they were laid off because of deregulation. Some public policies included employment protection provisions. These relatively generous worker protection arrangements were frequently gained through the political power of some public employee unions.*

Many of these well-intentioned legislated adjustment programs discouraged adjustment, even though retraining and relocation provisions were included in the programs. Discouragement of adjustment was inevitable when the program included overly generous benefit levels in relation to the wages that workers would earn while employed.**

The Trade Act of 1974 introduced the most extensive labor market adjustment program. Several research studies (see Gilman 1979) have shown that the effect of this program turned out to be the opposite of what was intended. The program goal was to encourage labor mobility of workers who were permanently displaced because of increased imports of foreign-made goods.

The costs of the program rose from about $34 million in fiscal year 1975 to over $2.5 billion in 1981. Under the Omnibus Budget Reconciliation Act of 1981, budget outlays have been sharply reduced and the number of participants reduced from a high of one hundred seventy-five thousand to some eight thousand workers by late 1982. In addition, the government is currently attempting to shift the program more toward retraining and job search assistance and away from income maintenance.

The Trade Adjustment Assistance program illustrates how government assistance to permanently displaced workers can, in fact, reduce labor flexibility.* Experience both here and abroad has shown that well-intentioned public policies often increase, rather than reduce, labor market restrictions. Adjustment resources frequently end up protecting jobs and relative income levels during periods of temporary unemployment. This creates inequities among different groups of workers and shifts the burden of unemployment to younger and less-experienced workers. Although lack of adjustment may, in the short run, protect the income of some groups of workers, failure of resources to move to their most productive use results in no net gain to society.**

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*The following legislation includes public sector worker protection provisions: the Juvenile Justice and Delinquency Prevention Act of 1974, the Special Health Revenue Sharing Act of 1975, and the Developmental Disabilities Services and Facilities Construction Act of 1975.

**The potential effect of high benefit levels on the rate of adjustment is illustrated by policies adopted when the decision was made to expand the Redwood National Park. The expansion resulted in the layoff of workers who relied on forestry activities that were curtailed once the land area of the park was expanded. In response to this problem, the Redwood National Park Act was amended in 1978 to assist the one thousand to two thousand affected workers by providing them with extremely generous adjustment benefits. All covered employees laid off in a three-year period ending in October 1980 were made eligible for the assistance regardless of the reason for the layoff. The benefits for those with more than five years on the job included (1) supplemental payments for each week of total or partial layoff at workers' highest rate of pay, and (2) maintenance of all fringe benefits. These benefits were payable for a period of six years. Those with less than five years' service could receive a maximum severance pay of seventy-two weeks of pay if the worker engaged in retraining. Such workers also received job search and relocation allowances.

Experience shows that "fine tuning" of employment policies as a response to structural employment is extremely difficult. Indeed, targeting assistance to experienced displaced workers may be counterproductive. In part, this is because there is frequently an overlap between the adjustment program and other labor market policies, such as Unemployment Insurance, and programs provided through collective bargaining. Eligibility requirements for targeted adjustment programs are rarely scaled back when a worker becomes eligible for other forms of assistance. This reduces the incentive for workers to seek reemployment, at least in the short run.

In the early 1980s, the federal government attempted to reduce expenditures on several adjustment programs, and it now taxes part of unemployment benefits. Economic growth now appears to be the major policy instrument for assisting displaced workers, although several "demonstration" projects have been funded and proposals have been made to reform the UI system to make it more effective for retraining displaced workers.

The Job Training Partnership Act (JTPA) does provide state and local areas with some resources that can be used to assist experienced laid-off workers. In fiscal year 1983, Title III of this act will provide

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*More than 70 percent of the laid-off workers who received Trade Adjustment Assistance (TAA) returned to their previous employers. This is a higher rate of return than for most other groups of laid-off workers. Only 1.2 percent of TAA workers completed training under the program and only 0.3 percent took advantage of relocation allowances. Many program participants received high wage replacement rates because of simultaneous eligibility for other income maintenance programs and because TAA benefits were not taxed. Consequently, TAA was essentially an income maintenance program for relatively high-paid workers.

**Many European governments are beginning to question the effect of their adjustment programs, which many believe have contributed to labor market rigidities and to rising rates of unemployment.

$125 million for this purpose, with any adjustment program clearly a local responsibility (including incentives for some state and local financing).

In 1983, a major increase in federal expenditures for public infrastructure was legislated. Some policymakers describe this as a program to assist displaced workers. The main thrust of the program will almost certainly benefit those who are cyclically unemployed and will have little effect on those who are *permanently* displaced.

Over the past two decades, success in designing employment programs to assist displaced workers has proved illusive. At the same time, an enormous amount of labor market adjustment has occurred. Labor markets, on their own, do provide adjustment incentives, and the federal government spends considerable resources on labor market intervention. The challenge for employment policy is to use these resources to improve the operation of these markets and to help those who are most seriously disadvantaged by economic change become more mobile, occupationally, industrially, and geographically.

Educational Policy and Displaced Workers

Traditionally, educational policy at the federal level has never been designed to assist displaced workers.* Some businesses use part of their training expenditures to contract with educational institutions for training workers who are permanently displaced. Such an involvement in assisting displaced workers is quite unusual, although anecdotal evidence suggests that employers and unions in a few local areas experiencing severe structural unemployment are actively cooperating with the local vocational educational system in the labor market readjustment process. More frequently, the educational system plays a role prior to displacement, when the local employer contracts with the local educational institution to retrain groups of employees in the use of new production processes that will be introduced in the future.

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*Even the concept underlying the experience with the GI bill cannot be strictly considered an educational policy, although many recipients of this program successfully used the GI bill as a form of educational voucher. The educational and training benefits for ex-servicepersons are primarily designed as an incentive to encourage recruitment in the military. Similarly, education provided while in the service is not given to help military personnel readjust to employment in the civilian sector, even though the education and training they receive are frequently transferable. See Cooper and Huerta (1982).

The Role of Educational Policy Prior to Job Displacement

Educational policy, through its stimulation of investment in human capital, can increase the contribution of labor resources to economic growth; in the long run, it also contributes to productivity improvement. In addition, a highly educated labor force is likely to be more adaptable to dynamic economic change, including readjustment to permanent job loss.

The United States has an extremely high level of investment in formal education. The proportion of the college-age population enrolled in college peaked in 1976 at 26.7 percent and declined slightly until 1980, when there was a slight rise to 25.7 percent. These rates of participation were the culmination of rising levels of high school graduates and college entrants since World War II. All ethnic groups participated in greater investment in education, although the participation rates of those of Hispanic origin are lower than the rates of other groups.

Investment in education does not guarantee that workers will avoid permanent displacement during their working careers. Labor mobility studies do, however, suggest that a higher level of educational attainment facilitates adjustment to changing labor market conditions. Perhaps more important is the quality of education. If displaced workers have strong basic skills in mathematics, English, and analytic capability, the transition to a different type of job is likely to be more rapid.

The benefits of investment in human capital through education are both public and private in nature. Society benefits from this form of investment because education improves the productivity of the labor force and increases the possibility of a higher overall standard of living.* Individuals benefit from a higher level of education in two ways: first, the process of education is regarded as a desirable form of personal consumption; second, individuals achieve a higher labor productivity potential, which is likely to result in increased compensation, producing a positive rate of return from the investment of college-age individuals.

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*Of the 7 percent of GNP that is spent annually on education, over 80 percent is publicly funded through federal, state, and local governments. In 1980, public expenditure accounted for 89 percent of all elementary and secondary level expenditures and 68 percent of all higher education expenditures (see U.S. Department of Commerce 1981, p. 134).

Recognizing that real resources, including students' time, are expended in "producing" education, investment in education should only continue to the point where the combined private and public return is at least as high as the next best alternative investment. Examples of alternative investments for individuals include choosing to enter the work force rather than to attend college, and for the federal government, spending funds on highways rather than on schools.

It is uncertain what the current level is of the rate of return to investment in *postsecondary* education, and whether the rate is rising or falling. Individuals face higher costs for a college education in terms of the percent of direct charge to the student, and also in terms of higher "opportunity costs" in the form of loss of potential earnings while the student continues in school. Society also incurs increased costs, as more resources are diverted to higher education, and in the short run there is a cost of fewer workers contributing to the growth of output in other sectors of the economy. The rapid increase in black participation rates in postsecondary education may largely be explained by their higher rates of return from such an investment. The slight decline in the overall rates since 1976 may be due to declining rates of return. However, whether the current level of investment in a college education leads to a positive rate of return is uncertain (Smith and Welsh 1978).

Federal aid to encourage participation in postsecondary education has grown rapidly since 1976, even though elgibility requirements were tightened in 1982 in both the Pell Grant and Guaranteed Student Loan (GSL) programs in response to critical evaluations of the design and the administration of these programs. In terms of total dollars of aid actually available to students, $3.4 billion was available in 1976, compared with $11.8 billion in 1981. The largest program increases were recorded in the Guaranteed Student Loan program, for which available loan funds grew from $1.2 billion to $7.8 billion (the number of recipients grew from about 1.0 million to 3.5 million over the same period), and in the Pell Grant Program, which increased from $1.4 billion in 1976 to $2.3 billion in 1981 (with 1.9 million and 2.7 million recipients, respectively). Much of the increase in these programs resulted in increased aid to students in middle- and upper-income families. Also, all other student assistance programs increased during this period.

Although total federal budget appropriations increased by 102 percent from 1976 to 1981, median family income grew by only 50 percent. College costs grew at about the same rate as family income, although in the 1980s, there appears to have been a rapid acceleration in college costs.*

The increase in federal assistance to students in postsecondary education is especially significant, since total enrollment of eighteen- to twenty-four-year-olds was almost the same in 1981 as in 1976. Demographic projections suggest that, even with an increase in participation among older students, the number of postsecondary participants is likely to decline or remain relatively stable.

Investment in *elementary and secondary education* has traditionally had very high rates of return. The goal of having a literate population is universally recognized as desirable, and in an increasingly technical environment, basic competency in mathematical, scientific, and communications skills is necessary for the economic well-being of both society *and* the individual. The federal government has traditionally played an extremely limited role in this segment of the education industry. In a technologically advanced society, however, the quality of output from both general and vocational programs will play a crucial role in determining the ability of future generations of workers to adapt to economic change. Most would argue that the federal government is not in a position to mandate the type and quality of output for elementary and secondary education levels. It may, however, be able to play an indirect role through evaluative research and publication of comparative performance on the basis of standards of achievement.

Investment by industry in training and on-the-job experience is a form of human capital investment that is generally considered separately from educational policy. Yet its relevance to worker displacement is much more direct than other types of educational and training investments. If a business has a well-developed training program for its employees, some worker displacement may be avoided if the firm expands employment in some activities while it reduces or phases out other activities.

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*Warren Hillman of the U.S. Office of Management and Budget supplied data for 1976-1981 on the basis of analysis of the U.S. budget. In the FY 1984 presidential budget message, the administration made a number of proposals that move federal policy toward a somewhat lower future level of federal expenditures for postsecondary education and a reduction in the number of categorical programs. These include ensuring that a higher proportion of funds for Pell Grants are used by students from low-income families, and a reduction in expenditures for GSL programs. The GSL programs are entitlements, but with lower interest rates and the stricter eligibility standards of 1982, expenditures are expected to decline. See Evans (1983).

There is no accurate estimate of the annual expenditure on training by business. Estimates range from about $17 billion to nearly $100 billion per year. Expenditures probably range from $20 to $30 billion, with a little less than half of the training given at some form of educational institution. The twenty-five to forty-four-year age group is overrepresented among trainees, as are better educated workers. Training by industry is concentrated on white-collar workers, especially training for professional, technical, and managerial workers.* About 40 percent of courses are in the "business" area. As a result, there seems to be an important "consumption" component in investment in training by industry. These estimates of the nature of training given by industry suggest that industry's current training activities are not likely to assist the type of workers being displaced.

The Role of Educational Policy after the Worker Is Displaced

The role of educational institutions in assisting displaced workers is constrained by the likely characteristics of the displaced workers themselves. Since many displaced workers are in the middle- and upper-age groups, the rate of return from this form of investment will be quite low, and perhaps even negative. The rate of return from geographic relocation or employment in another job, even at a lower salary, may produce a higher return than additional training and education. Nevertheless, if educational institutions can offer relatively short courses in job-related skills that are in demand in the local labor market, they can assist in the reemployment of displaced workers. The vocational education system appears to be capable of supplying this type of training.

In 1981, 17 percent of those employed and 11 percent of those unemployed were enrolled in some form of adult education. Almost all were in part-time programs. Based on data for 1975, about one-half were enrolled in courses that were related to some form of occupational training (Grant and Eiden 1982).

The federal government plays a limited role in financing and in influencing the curricula of the vocational education system. In 1981, federal expenditures for vocational education were approximately $853 million of the $7.5 billion in public expenditures. In real terms, this represents a slight decline in federal expenditures since 1970.*

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*For a comprehensive review of training and education in business, see Carnevale and Goldstein (1983).

During the first half of the 1970s, the share of total expenditure by state and local governments increased, while the federal government share remained relatively stable. In real terms, state and local expenditures peaked in 1978-1979 as enrollment started to decline.

Since funding of the vocational education system is predominantly from state and local sources, the federal policy goal is dominated by state and local policy. Federal policy appears to be geared toward encouraging states to develop their own evaluation capabilities and contributing to selected federal policy goals, such as overcoming sex stereotyping, improving the link with local labor market information, and encouraging the education of the handicapped and persons with limited English proficiency. Because the reauthorization and possible amendment of the Vocational Education Act of 1963 is expected in 1983 or 1984, there are numerous proposals for federal policy goals to include the training for specific groups of workers or training for specific skill shortages. There is every reason to believe that local vocational education systems will respond—on their own—to the needs of displaced workers since these persons offer local schools and colleges a new market. It may be possible for the federal government to provide displaced workers with easier access to the system by changing some of the eligibility criteria for student loan applicants who attend short-term, job-related vocational education programs.

AN OVERVIEW OF SPECIFIC POLICY OPTIONS FOR ASSISTING DISPLACED WORKERS

The major conclusion to be drawn from the review of the trends in labor market and educational policies is that a wide variety of policies have an indirect effect on both the rate of job displacement and how workers readjust in the labor market. Despite the fact that only a relatively small amount of resources are available to assist displaced workers directly, modification of these indirect policies (which involve much larger resources) appears to be a more effective strategy than one that proposes to target new programs to help displaced workers. The following discussion briefly reviews possible policy options.

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*In FY 1983, budget appropriations were $732 million. In its FY 1984 budget, the administration proposed $500 million. This reduction would affect program activities in the 1984-1985 school year. As part of its 1983 request for its recisions of budget authority, the administration is proposing to end all federal financing of cooperative education, see Irwin (1983).

Moderating the Pace of and Planning for Structural Change

It is widely recognized that it takes time for firms, and their employees, to adjust when they are adversely affected by structural change. The argument frequently made by those affected is that the industry should receive some form of temporary protection from market forces so that the adjustment process is more gradual. This is a typical response when structural change results from loss of competitiveness in American industries—leading to increased import penetration of the American market. Frequent recommendations include temporary protection through policies for import quotas, tariffs, negotiated orderly market arrangements, or domestic content requirements on imports to the United States.

The advantage of such temporary protection is that the pace of structural change is decreased, providing the industry with the opportunity to improve its competitive position. This is the intent of the voluntary quota on Japanese auto imports, for example, which is due to expire in 1984. The effect of the voluntary quota on import penetration is uncertain, however, as the sales of both foreign and domestic auto manufacturers declined in 1981-1982. U.S. auto manufacturers have made significant capital investments in an attempt to lower unit costs of production; but despite the protection, some worker displacement from the industry has occurred and Japanese competition has increased in the higher-priced segment of the market.

The disadvantage of temporary protection is that, over a period of several years, it does not generate any net growth in jobs, even though in the short run some jobs in the protected industry are obviously saved. If the temporary protection becomes relatively permanent, as in the case of the Multifibre Orderly Marketing Agreement, it eventually reduces overall economic growth and slows future employment growth.

Increased trade is now extremely important to American employment growth. In the period between 1977-1980, the growth of manufactured exports accounted for 30 percent of total employment growth. Any attempt to prevent job displacement in our basic industries through protection will simply result in failure to expand employment in other industries—usually in the so-called high-technology industries producing for rapidly expanding world markets (McLennan 1983a).*

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*Also see Davis (1983) and Almon et al. (1983).

There are many legislative proposals for a federal policy mandating that firms plan for the effects of displacement due to *plant closing* and that they provide employees with early notification of the intended elimination of jobs. The goal is to provide employees and local employment institutions with information and time to plan an orderly adjustment to structural change. Many industrial countries have enacted such laws, and illustrations of successful readjustment under these laws can be cited (e.g., see Batt 1983). There are also success stories of management voluntarily adopting its own plant-closing policy, including significant readjustment programs for the workers adversely affected (e.g., McKersie and McKersie 1982).

Voluntary plant closings and early notification policies are desirable, provided they lead to more rapid readjustment by workers. The problem with mandating these policies is that it is impossible to design plans that are feasible for all industries. For example, the loss of a bid for a major contract, especially a defense contract, can mean rapid cutbacks by the prime contractor, as well as by a network of subcontractors. Also, mandatory plant-closing legislation would be impossible to apply to the large number of failures among small businesses that, as discussed earlier, represent a significant portion of the source of worker displacement.

In Canada, plant-closing legislation that requires employers to given some prenotification permits employers and unions to request assistance *voluntarily* from the Manpower Consultative Services branch of Employment and Immigration Canada. Typically, the Consultative Services staff attempts to assist management and the employees affected by a prospective plant closing to work out a joint approach to assist in the reemployment of displaced workers. Such an approach may work in the United States in some cases. Unfortunately, for most employers and employees, the U.S. Employment Service is not regarded as an effective institution for reemployment assistance. Most employers who develop plant-closing procedures feel they can implement the process more successfully on their own.

Finally, as part of the concept to plan for structural change, it has been proposed that the federal government require all employers to set up an *Individual Training Account* (ITA) for each of its employees. Over a period of several years, employers would contribute three thousand dollars to each employee's account, with each worker contributing an additional three thousand dollars. Displaced workers could draw upon the ITA, using the funds for retraining.*

This is an attractive concept since it makes employers and workers jointly plan for the possibility that some workers may need to be retrained for different occupations. The plan, however, has a serious drawback. It would substantially increase the cost of hiring labor over the next several years, precisely at the time when there will be a significant increase in wage taxes to finance the Social Security trust fund and all state Unemployment Insurance trust funds. If enacted, the policy would certainly inhibit the growth of employment, especially among new entrants and reentrants to the labor market.

Manipulating Local Labor Market Demand

Employment in some local labor markets is heavily dependent on several major employers. The loss of a major source of employment through plant closing makes it difficult, if not impossible, for those displaced to find reemployment in other local industries. In addition, many workers who wish to move to another labor market will resist geographic mobility if it means selling their homes at depressed prices and purchasing new ones at a much higher interest rate, even if employment is expanding in other labor markets.

One possible solution is to target government assistance to these depressed labor markets by *encouraging new business to move into the area*. If successful, this approach would reduce the costs associated with the underutilization of existing public and private capital that typically occurs when the employment base of a local area starts to erode.

Another advantage of manipulating the local demand for labor is that there are currently substantial federal resources available to local communities to assist them in attracting new industry. Under *federal procurement regulations*, including U.S. Department of Defense procurement, labor surplus areas are supposed to be given preference in the distribution of government contracts. Unfortunately, in a severe recession a very large number of local labor markets throughout the country can qualify for such preferential assistance. In addition, increased expenditures in defense are frequently for the production of sophisticated weapons systems, which tend to favor production in those states where high-technology firms are currently located. Many states currently experiencing the most severe effects of structural change do not have the facilities or the labor force necessary to be prime contractors for such defense contracts. At best, they can hope to develop some subcontracting capability.

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*For details of this proposal, see Choate (1982).

In 1983, legislation (Emergency Jobs Appropriations) was enacted to *increase federal expenditure on the public infrastructure* (e.g., bridges, roads, and the like). It was claimed, by the administration and by most senators and congresspersons, that this was an employment-generating measure. Assuming that the states and local areas do not reduce their own budgets for public infrastructure (which is unlikely), some employment will be generated, but not necessarily in labor markets with a high concentration of displaced workers. This is clearly an inefficient policy instrument for stimulating employment opportunities for displaced workers.*

The federal government has several *expenditure and loan programs* that are available to assist local areas attract new business. These include Urban Development Action Grants, the Economic Development Administration's Business Development Assistance Program, the Small Business Administration's Business Loan Program, and the Farmers Home Administration's Business Loan and Industrial Loan Program. It is difficult to estimate the net effect of these programs on the reemployment of displaced workers. In the past, there appears to have been an unintentional bias against assistance for manufacturing and in favor of commercial activities, especially in the central business districts of metropolitan areas. Consequently, there appears to be a need to reduce the overlap among these programs. Perhaps these separate efforts to assist business at the local level could be merged into a single program. Also, because it is difficult for the federal government to select which industries should be developed in particular local areas, any federal assistance should be as neutral as possible in its support of industries and geographic regions. The decision as to which industry should receive an incentive to locate in a local labor market should be made at the local level.

Federal assistance to local areas is also available through the tax code, which permits local jurisdictions to issue bonds whose interest is exempt from taxation. Some of the bonds issued by *public* authorities are designed to improve the public infrastructure of local labor markets. Such capital investment may provide an indirect incentive for new business to locate in those areas.

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*Because the expenditure ($5 to $6 billion for public capital over a period of several years) is apparently not being offset by similar reductions in expenditures on public consumption programs (such as entitlements), the effect of the increase in federal infrastructure expenditures could be counterproductive. This will occur if the program increases budget deficits and makes it more difficult to reduce interest rates, which have a major influence on private capital formation.

The tax code also permits states and local authorities or private institutions to issue bonds that are designed for *private* purposes. In 1975, these private activity issues accounted for 20 percent of all tax exempt issues; they now account for more than one-half of the $85 billion issued annually.

Two major disadvantages stem from the rapid growth of tax-exempt issues. First, the recent overall growth from $30 billion in 1975 to $85 billion in 1981 is of concern, because it distorts the flow of investible funds away from investment in new plants and equipment, which do not receive such favorable tax treatment. The annual volume of investment may have reached the point where it is crowding out some private sector investment essential to future employment growth.[*] The large revenue loss to the U.S. Treasury increases the difficulty of reducing federal budget deficits. This prevents the interest rate from declining and inhibits private sector investment.

A second problem is the growing importance of private activity issues within the total amount of annual issues. Although public bond issues to improve the infrastructure can contribute to a region's economic development, the same argument does not apply to *private* activity issues by nonprofit institutions for hospitals, schools, housing, and other favored business investments under the Small Issue Industrial Revenue Bond (SIRB) program. For example, SIRBs, which have expanded tenfold since 1975 to a current annual rate of $13.7 billion, have grown more rapidly than other types of bonds (Joint Committee on Taxation 1983). Evaluations of the benefits from this substantial annual revenue loss to the federal government ($2-3 billion annually) conclude that these bonds make little difference to industrial location decisions, and at best make only a marginal contribution to local employment growth. In some states, the bonds favor investment in retailing and service over manufacturing.

The tax-exempt preferences given the *private purpose* bonds distorts the allocation of capital within local areas. From the point of view of economic development, there is no reason why those issuing the bonds for private purposes (e.g., housing, hospitals, and schools) should not compete in capital markets on the same basis as those wishing to bring other types of plants and equipment to local areas.

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[*] The concern that some private investment is being crowded out is based on the growth of tax-exempt issues as a proportion of personal savings. In 1975, tax-exempt issues were equivalent to 32 percent of personal savings, but by 1981 the proportion had risen to 65 percent. Some of the increase in tax-exempt issues did subsidize business investment for such activities as pollution control, which at least partially offsets the "crowding-out" effect.

If we wish to improve productivity growth, increase the competitiveness of American industry, and improve employment opportunities for displaced workers, we must reduce the annual level of *private* activity tax-exempt bond issues. If the current growth of these bonds continues, it will simply increase the cost of business expansion that does not have access to favorable tax treatment.

In the final analysis, if local labor markets are to attract new business, public and private institutions in the local economy must make the difficult decisions required to lower the cost of doing business in the specific area. There is no justification for the federal government to subsidize some type of private activity, if this makes it more costly for other private sector activities to bring new plants and equipment to local areas whose economy is depressed. Although the taxpayers who hold the tax-exempt private issue bonds and the nonprofit institutions who issue them benefit from the expanded use of this tax subsidy, it is not an efficient policy instrument with which to assist displaced workers.

Supply-Side Incentives to Employers

Currently, there is considerable interest in a proposal to provide employers with a tax credit for an incremental increase in an employer's investment in retraining the existing work force. It is argued that, as the pace of structural change increases, employers will have to respond by retraining a substantial portion of their own work force so that their workers have the skills to adapt to changing technology and the firms may avoid critical skill shortages.

The analytic justification for this proposal is partially based on the claim that, over the next decade or so, 10-15 million manufacturing workers and a similar number of employees in the service sector will be displaced by structural change (Choate 1982). It is also claimed that more investment is needed because of projected skill shortages in a number of critical occupations.

The future pace of structural change may be more rapid than in the past, leading to higher rates of displacement. There is little evidence, however, from either official occupational projections or empirical studies of new technologies to support the claim that we are entering a new era of such rapid skill obsolescence (Personick 1981). Nor is there much support for the forecast of growing skill shortages in specific occupations and the increasing inability of workers to adapt to new skills demanded in the workplace (Rosenthal 1982).

The case for providing employers with an incremental tax credit for retraining their employees is also based on preliminary research that claims there is a growing mismatch between the skills of the labor force and the qualifications demanded in the labor market.* The indicators used to measure this alleged skill imbalance (i.e., help-wanted index, discharge rates, and number of lines in print discussing skill shortages) are not, however, reliable indicators of the skill imbalance variable. It is claimed that employers have not responded to the imbalance by retraining their employees, but have bid up wages in the external labor market. The conclusion, described as inflationary, is incorrect. Hiring in the external labor market changes the *relative* price of labor, but does not raise the general price level. Changes in relative wages are part of the normal functioning of the labor market and are incentives for workers (and employers) to invest more in developing the skills in demand.**

Apart from the difficulty of defining what retraining is eligible for a tax credit, the case for the new tax preference for employers is weak when one considers that, under the tax code, employers can now write off all training costs in the year they are incurred. Buildings used for training are written off much as plants that are used in the production process. This is much more liberal than the tax treatment afforded to investments in plants and equipment. Public policy should not attempt to distort the flow of investments to different types of inputs in the production process. Such distortion will not produce the most efficient allocation of resources. Failure to approximate neutrality in the tax treatment of returns from different types of investment will adversely affect productivity growth.* Corporate tax policy should try to be neutral about investments in labor, plants, and equipment.

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*Several unpublished papers of James L. Medoff report some of the innovative work he is conducting at the National Bureau of Economic Research.

**Estimates of the level of employer investment vary widely, but all agree that the annual investment is substantial. The preliminary papers of James Medoff do suggest that the growth of training investment has leveled off. Failure to increase the level of investment in training may be a rational decision for employers. For example, the amount of formal education and training of the labor force is higher than ever in our history. Also, as the rate of capital investment remains low, there is less need to retrain workers.

Investment in human capital by employers already receives preferential treatment compared to investment in physical capital. Indeed, any tax policy change should move in the direction of permitting physical capital investments to be written off in the year they are incurred, provided most so-called tax expenditures available to business are gradually eliminated to make the change neutral in its effect on federal revenues.

At a time when there is substantial support for tax simplification and a reduction in federal budget deficits, any proposal to provide business with an additional tax preference contradicts the much more important goal of stronger fiscal policies to reduce interest rates—a reduction essential to future employment growth. In the long run, a substantial elimination of the enormous growth of preferential tax arrangements in both the personal and corporate tax code will do much more for business, and for any employee who may risk job displacement, than proposals that result in further erosion of the tax base.

The use of a *reemployment voucher* by displaced workers has been proposed as an incentive to employers for hiring the long-term unemployed, including displaced workers. As originally proposed, the cost of hiring a permanently dislocated worker (and other long-term unemployed workers) would be reduced by permitting the workers to convert extended UI benefits (the federal allocation paid after the regular twenty-six-week program) into a "reemployment voucher" to be paid to the new employers (McLennan 1983b).

The value of the voucher would equal 75 percent of the value of the thirteen weeks under the federal extended program or any remaining weeks for which workers would be eligible if they remained unemployed during the entire extended period (i.e., currently thirteen weeks). This voucher could be offered to employers who provide the workers with jobs that represent an incremental increase in the employer's work force. The employers would receive the value of the reemployment voucher in quarterly payments from the state UI system.

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*In addition, current tax law seriously distorts the flow of capital investment to different types of capital assets by taxing income from various industries at different effective tax rates. In the interest of productivity growth, such distortion should be corrected. See Committee for Economic Development (1983).

The incremental wage subsidy through the reemployment voucher would end after about a year. Otherwise, the program would eventually be paying employers to hire workers they would have hired anyway. Also, employers should not be subsidized for hiring during the later stages of an economic recovery.

The value of the vouchers presented to employers by most workers receiving extended benefits would average about $1,125, at 75 percent of the average value of extended benefits. For many employers, this would be a significant incentive to hire workers who have experienced long-term unemployment.* At the present time, Delaware has taken the initiative by establishing an experimental program using a form of reemployment voucher that includes training and relocation services.

More flexible use of UI benefits to assist the long-term unemployed and those dislocated by structural change is of growing interest to policymakers at all levels of government. Senator Quayle, in his Economic Opportunity Act of 1983 (S. 242), proposed reemployment vouchers based on extended UI benefits. The administration supported the concept and would have permitted 100 percent of extended benefits to be used as vouchers. The administration's approach would have administered the program through the Internal Revenue Service rather than through a state's UI system.

The concept of the reemployment voucher failed to get sufficient support in Congress, partly because it was opposed by the major interest groups representing labor and business. The major disadvantage of the proposal is that the program must be initiated close to the bottom of any recession and it must end in about one year. The federal government would end up subsidizing employers to hire workers they would normally hire without the subsidy. The advantages of the concept are that (1) it begins to give preference to those who have suffered from an especially long spell of unemployment; (2) it permits the long-term unemployed to renew their work skills through on-the-job experience; and (3) more important, it represents a shift of UI policy toward the goal of reemployment and not simply to a program that provides income maintenance.

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*In 1982, the cost of the federal extended program was $1.8 billion. If the cost was the same for 1983, the reemployment voucher would only result in a net increase in expenditure once 1.66 million workers become eligible for extended benefits.

Supply-Side Incentives and Assistance to Individuals

Most of the proposals to prevent worker displacement or to assist those who become displaced focus on the individual workers. As an alternative to giving employers the incentive to retraining workers in response to potential structural change, it may be preferable to give individuals the incentive to invest in their own human capital.

The internal revenue code currently permits several tax allowances to encourage individuals to invest in their own human capital. The most relevant allowance is that expenses are deductible for education that maintains or improves skills needed for one's *present* employment, trade, or business.* However, the tax code is interpreted to mean that a taxpayer cannot deduct expenses for education or training for a *different* occupation.

Extending the education expense deduction to a different occupation appears to be a relatively simple change in the tax code, which would help a *displaced* worker prepare for a different job. The revenue loss to the U.S. Treasury would be relatively small. However, most displaced workers will have low taxable incomes and the rate of return to experienced workers may be very low.

If this change in tax policy is applied to all workers, it will not only increase the revenue loss substantially, but it will also raise a number of difficult administrative and equity problems. Almost any education or training can be claimed as legitimate preparation for different employment, trade, or business. If it is applied to all workers, will full-time students who have any earnings during the year be eligible to deduct education expenses? Why should there be a tax deduction? Perhaps it would be more equitable if the incentive took the form of a tax credit or a tax deferral. It is quite clear that what appears to be a simple modification to the tax code, at best, does little for workers who are actually displaced. Indeed, there is a high probability that if public policy moves in this direction the major beneficiaries of the program will be those with the least potential for experiencing future job displacement. Such a policy change will further reduces the tax base, complicate the tax code, and do little to assist displaced workers or those most likely to be displaced.

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*The other allowances are (1) taxpayers may claim a dependent's exemption if they contribute more than half the support of a student dependent, even if such would otherwise not be allowed on the basis of the student's income or age; (2) taxpayers need not report as taxable income amounts they received as scholarships or fellowship grants; (3) taxpayers need not report as taxable amounts paid by their employers for their educational expenses under a qualified education assistance program. See Lyke (1983).

Several proposals attempt to improve the *connection between the resources available under unemployment insurance (UI) programs and participation in retraining and education programs.*

Many state laws do not permit UI beneficiaries to engage in training programs while receiving UI benefits.* This "economy" is altogether counterproductive. The Job Training Partnership Act recognizes this problem and Title III of the act encourages a link between UI and retraining programs. It permits up to half of a 50 percent state-match requirement of state UI payments to eligible participants. Senator Quayle has proposed that the link be extended to student loans and Basic Education Opportunity Grants.

Under the original Quayle proposal, displaced workers would not have their principal residences counted in the asset tests for a student grant or loan. In addition, the displaced workers' UI benefits would not be included as income in meeting the existing income test in qualifying for educational assistance.

The incentive for displaced workers to consider education and retraining at an early stage of permanent layoff seems highly desirable. The easier access to student aid should provide schools and colleges, especially those in the vocational education system, with an additional incentive to offer programs to this market. Another advantage of this approach is that it will require little, if any, increase in federal expenses and will not worsen the budget deficit. It avoids a new categorical program by increasing the opportunity for displaced workers to participate in general student aid programs.

Displaced workers are more likely to need short-term courses and some may prefer to receive education and training on a part-time basis. It may be appropriate to extend the Quayle concept by modifying the current "full-time student" regulation to allow displaced workers to be eligible for student aid, even though they are only enrolled part-time in a training course. This modification could be important in those states whose UI programs permit workers to earn some income and still be eligible for UI benefits.

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*State UI systems should be encouraged to experiment with integrating retraining with the UI system. Some countries allow unemployed persons who take training courses to continue receiving UI. Canada, for example, allows trainees to continue receiving UI for the duration of the training course, even if entitlement would normally lapse in this time, and then provides a further short extension (up to six weeks) to cover a period of active job search upon completion of the course. However, there can be other uses. The Netherlands allows unemployed persons being given on-the-job training by a firm to continue receiving benefits. See Organisation for Economic Cooperation and Development (1982).

A more basic reform of the UI program involves restructuring to include an *individual readjustment account within the existing system.* This could be achieved by including an individual account as a second tier within the current system. Tier I would be a modified version of the present system, with more effective experience rating and a longer waiting period. The individual account proposed as an addition would be financed by a portion (perhaps 10 percent) of the employer tax. Each account should be fully funded. Interest should accrue to the funds credited to it.

The eligibility conditions under which a worker could draw upon the account may include (1) permanent displacement, with employers certifying that the workers will not be rehired because of the permanent elimination of the previously held job; (2) continuous labor force experience of five years prior to permanent layoff; and (3) unemployment for perhaps fourteen weeks.*

It is important to permit workers to have control over the way the funds in their individual accounts are utilized once they are eligible to draw on the accounts. The amount of withdrawal and whether it is taken in the form of income maintenance, retraining, or relocation should be the workers' decision. Only the individual workers can properly decide which types of investment in their own human capital are likely to lead to successful labor market adjustment.

Workers should have the maximum incentive to readjust quickly after permanent displacement. Accordingly, it is probably desirable for a small portion of the accrued balance in their accounts, plus interest, to go to them upon retirement.

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*Because a majority of job-losers can expect to return to work with their previous employers, it is important to require that they be unemployed for a minimum period before they are eligible to draw on their individual account. If there is no minimum unemployment period in a severe recession, such as that of 1982, perhaps most of the 4 million job-losers would be eligible for participation in the individual account. With a fourteen-week minimum period, the maximum number of job-losers who could draw on their account would be about 1.8 million. The disadvantage of the minimum unemployment period is that it may discourage some of those workers, who will never be rehired by their previous employer, from making efforts to relocate quickly. On the other hand, if workers can draw on their individual account without experiencing a minimum number of weeks of unemployment, it may encourage unnecessary relocation if their employer begins to hire during the economic recovery.

If the two-tiered UI structure is to be successful, it must be implemented in such a way that it does not raise hiring costs; otherwise it will have the same weakness as the individual training account proposal discussed earlier. Consequently, an equally important feature of the two-tiered approach is the need to reduce the cost of other parts of the UI program. The following reforms are likely to achieve the greatest cost savings, improve the operation of labor markets, and avoid some of the well-documented overuse of the UI system by some employees and employers: (1) reinstate a two-week waiting period before the twenty-six weeks of the basic UI program begins; (2) reform UI tax structure by widening the differential between the minimum and maximum tax rates; and require job search counseling during the two-week waiting period.*

During the next five years, UI taxes will have to be increased to restore the solvency of most state UI trust funds. These increases, along with the scheduled increases in Social Security taxes, will raise the cost of hiring. For this reason, any new approaches to increasing the access of displaced workers to resources in the UI or educational systems must be achieved by reallocating existing resources. This involves some difficult political choices for all proponents of policies to assist displaced workers.

CONCLUSIONS

There are disagreements about the current magnitude of the displaced worker population, but most agree that it is a relatively small proportion of the labor force. No one can be certain about the future magnitude of the problem. Since all proponents of policies for displaced workers are searching for general solutions to assist in the reemployment of *all* displaced workers, perhaps this uncertainty over predicting the future is not a significant handicap to policy development. Targeted programs for specific groups of workers have been largely discredited by research. This is why the tax code, the UI system, or federal assistance to education are correctly viewed as potential vehicles for the appropriate policy strategy.

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*For discussion of these proposals, see McLennan (1983b). For a discussion of the importance of providing unemployed workers with job search assistance, see Blaustein (1981).

This analysis of the policy options strongly implies that new initiatives should be implemented with existing resources. It is inconsistent to propose solutions that require new expenditure programs, loan subsidies, tax preferences, or wage tax increases, and at the same time complain about the effects of high interest rates, and increased import penetration on unemployment. In the longer run, the solution must avoid making the displacement problem worse or reducing future employment growth.

This analysis recognizes that the United States already has a highly mobile labor force, with about one-half of those who are laid off or who leave their jobs moving to different occupations within one year after they leave their previous employers.* Public policy should attempt to increase the ability of workers to move to expanding jobs in other occupations, industries, or geographic locations. This leads to the conclusion that reform of the fifty-year-old UI system should be a major component of any policy strategy for linking displaced workers with retraining, education, and relocation. It may also mean that the way we encourage income security for the elderly through specific types of employer pensions will have to be reexamined. Similarly, the recent displacement of workers with generous health care benefits suggests that if labor mobility increases, our policy approach to providing health care protection may require modification.

Employers can do much to reduce the rate of displacement by improving their competitiveness, by planning for worker adjustment, and by retraining their work force. Additional federal subsidies for employers to retrain their workers are, however, rejected. Current tax policies that provide incentives to retrain or reeducate employees are already sufficient, and the external labor market itself provides the appropriate signal for employers to make their decisions on how much to invest in retraining.

There is no simple solution to the problem of reemployment for displaced workers. For some of those workers and their families, the cost of displacement is high. Public policy changes to assist those adversely affected will be difficult to implement. But, the challenge provides the opportunity to make basic reforms to some of our labor market and educational policies. In meeting this challenge we can reduce the cost to displaced workers and, at the same time, permit society to receive the benefits of structural economic change.

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*Based on data for the period 1977-1981, supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

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ROBERT M. GUTTMAN

Policy Options for Displaced Workers: Reactor Comments

DIFFICULTIES OF LEGISLATING

The McLennan chapter, as well as other chapters in these proceedings, demonstrates clearly that we do not know how many dislocated workers we have now or are likely to have in the future. When estimates of the number of dislocated workers range from 100,000 to over 2 million, we essentially have no estimates at all. The Uhalde chapter makes a heroic attempt to narrow that range, but even it gives a range of from 200,000 to 750,000. Those are shifting sands on which to build a solid legislative structure.

The difficulty is exacerbated by the fact that our ignorance of the dimensions of the problem is compounded by our ignorance of the characteristics of the dislocated workers. Their ages, sex, educational achievements, and the like are essentially unknown. We tend to assume that the typical dislocated worker is a middle-aged white male with a high school (or less) education, but the data do not support that assumption or, for that matter, any other. Nor is the industrial plant closing the only form of dislocation, as a number of the chapters make clear. Thus, generic legislation built on questionable assumptions is not likely to prove effective.

Perhaps the fundamental difficulty in devising a policy solution is that we do not have a clear definition of what we are discussing. Gordon claims that the range of estimates is due to inadequate data.

She believes that we really do know who the dislocated workers are, but that we are forced to estimate from unsatisfactory proxies. She says we could all agree that a dislocated worker is one whose job has been abolished and who has a hard time getting another one. I suspect that that is part of the definition, but not all of it. It includes many who could be classified as disadvantaged rather than dislocated—assuming that these two categories are at least conceptually separate.

The category of dislocated worker does not seem to fit the minimum wage worker whose employer goes out of business, or the seasonal worker who cannot find other employment in the off season, or the welfare mother who loses her job as a domestic. Yet they all fall within Gordon's definition.

Implicit in the concept of dislocation is the loss of a job that has some attractive features and that involves some level of skill on the part of the worker. We speak of retraining rather than training. However, the limitations on the definition have no specificity and only contribute to the uncertainty of both the dimensions and the nature of the displaced worker problem.

There seems to be only one area of unanimity in all the chapters here—a unanimity that is not unusual to find in such discussions. The consensus is that we need more research. I find myself in agreement with that conclusion, because we need better agreement on the extent and nature of the dislocated worker problem, both as it exists today and its future projection, before we will have a solid basis for making public policy.

TYPES OF LEGISLATION

The McLennan chapter summarizes and comments on some twenty or more policy approaches that have been suggested for dealing with the dislocated worker problem. There is probably another dozen in the other chapters—suggesting that the problem for policymakers is not that of finding a solution but rather that of finding the right solution. McLennan's summary of the pros and cons of the different approaches is fundamentally sound, and it is not productive to repeat them here with minor caveats or recommendations. Instead, a categorization is presented of the types of approaches that have been suggested, along with comments on the pros and cons of these types.

Entitlement or Discretionary Policies

The basic concept of entitlement legislation is that everyone who fits a defined category is given specified benefits. Its basic appeal is that of justice; that is, everybody in the same position is given the same advantage. The GI bill is, of course, the best-known example of the entitlement approach to training and education legislation. Among the current proposals that use this approach are the Individual Training Account idea, the two-track unemployment proposal, and tax credit approaches.

Discretionary programs, on the other hand, provide no rights, nor do they guarantee equality of treatment. They provide a limit (which may be quite vague) on those eligible for benefits, but leave the determination of those who will actually receive the benefits—as well as the kind, amount, and duration of those benefits—to some kind of administrative discretion. This is the approach followed in all of the basic modern training legislation, from MDTA to JTPA.

In the abstract, the arguments for entitlement always appear persuasive: "Render equal unto equals" is as attractive a concept now as it was when it was coined almost twenty-five hundred years ago. But from a practical and legislative view, there are a number of necessary preconditions for choosing the entitlement approach, and it is my contention that these are not met by the dislocated worker issue—at least not at the present time and with the present state of knowledge. These necessary preconditions are as follows: (1) we must be able to define precisely the eligible population, meaning we must have a definition that both includes all dislocated workers and does not include anyone else; (2) we must know what the appropriate benefit is to give to each member of that defined population; and (3), in order to make cost estimates, we must know the number of the beneficiaries and the cost of the benefit.

None of these conditions is presently met. We do not have a consensus definition of who the dislocated worker is, nor, as many of the chapters demonstrate, is there consensus that they should all receive the same treatment. For instance, the relative importance of job search and retraining is by no means clear, and the costs of entitling to retraining those who only need job search assistance could be staggering. Aristotle also said that justice consists of rendering unequal to unequals. Dislocated workers (at least those included in any broad definition based on job loss and prior work history) may have sufficiently different needs that prescribing an equal remedy for all of them may be neither just nor effective.

However, the overriding argument against the entitlement approach is budgetary. Entitlements are uncontrollable; Congress relinquishes control over the costs until it amends the law and is therefore reluctant to enact them without confidence in the cost estimates. Enough has been said to make clear why any cost estimate for such a program would have to be taken with a large dose of salt. With the current and foreseen federal budgetary deficits, the argument for a new, uncontrollable, and largely unpredictable program will face an uphill battle.

On the other hand, a discretionary program, such as that under Title III of JTPA, may be expanded at a rate determined by Congress, and treatments may be varied until we have the body of knowledge that experience under a variety of approaches will give us.

Government or Private Policies

The chapters reveal a very general consensus that much can (and indeed must) be achieved through labor-management cooperation. Many impressive examples of company and union initiatives in dealing with the displaced worker problem have been presented, and surely we all hope that such constructive efforts will multiply. There is also, I think, a consensus that the private sector cannot bear the entire responsibility and that the government must contribute its part. The question is not whether there should be governmental action, but rather what *kind* of governmental action.

Essentially, the government can operate (or provide for the operation of) a program, or it can require nongovernmental parties to take certain actions. The government can induce action by giving away money to those who meet its conditions, or it can coerce those who do not act as it requires. Proposals for governmentally funded training programs (whether entitlement or discretionary) fall into the first category; proposals to require advance notice of plant closings fall into the second. The issue with the second type of proposal is not whether the proposed action is desirable; it is whether what leads to good results, when done on a voluntary basis, will also lead to good results when undertaken to comply with governmental mandate. One must at least face that question before concluding that, because certain voluntary procedures work well, such procedures should be required of those who do not wish to follow them.

Systemic or Incremental Policies

Perhaps the most interesting—and certainly the most important—issue is whether we should deal with the dislocated worker problem through systemic or incremental reform. This is necessarily a question of degree as well as of kind, but the question can be posed in broadest generality as follows: Do we scrap what we have and provide a new and total solution, or do we tinker around the edges of the existing system? This issue is not a new one; in fact it was at the heart of the five-year debate over welfare reform.

The basic systemic reforms that are being advocated are the individual training account and the two-track unemployment compensation system. In essence, advocates of these proposals argue that they will deal with the overall dislocated worker problem; advocates of incremental reform argue that a variety of different measures will alleviate the problem, though none of them will provide an overall solution.

From the point of view of a policymaker, systemic reform has major advantages. However, in the case of the dislocated worker issue, I would suggest that these advantages are more than counterbalanced by the disadvantages. The basic advantage of systemic reform is that, if it works, that is all you need. But it has all the well-known disadvantages of putting all your eggs in one basket. Systemic reform is great if you know what you are doing (i.e., if the knowledge base is sufficient), but I do not think that is the case at the present time.

The incremental approach is better suited to the recognition of a degree of uncertainty. By making modest reforms on a piecemeal basis, the costs of errors are decreased and the opportunities for midcourse corrections are improved.

My preference, and the preference of my subcommittee chairman, is, at the present time, the incremental approach. We support expansion of the Title III program, consistent with the administrative capacity of the system, and have proposed a variety of other measures that will assist in dealing with the displaced worker problem. For example, we have eased the access of the long-term unemployed to training without loss of unemployment benefits, both by the provisions of Title III of JTPA and by amending the Federal Supplemental Compensation (FSC) program to make it easier for beneficiaries of the program to participate in retraining without losing benefits. In addition, we have proposed and reported, out of committee, (1) amendments to the Pell grants and guaranteed student loan programs to ease access of dislocated workers to those programs; (2) amendments to permit such workers to withdraw from their Individual Retirement Accounts without tax penalty; and (3) amendments to improve procurement targeting to improve employment opportunities in areas with high concentrations of dislocated workers. We will shortly propose amendments to concentrate more vocational education funds on this problem.

None of these approaches is a magic solution. Each is designed to deal with a part of the problem. If any one of these proposals works badly, it can be repealed or amended without too much trouble—and each one of them has a reasonable chance of moving from proposal to enactment during this Congress. Systemic reform has two major disadvantages: (1) it is difficult to enact (e.g., in welfare reform, in which two Administrations made major investments of political capital), and (2) it is difficult to correct if it does not turn out as expected. To coin a phrase, many half-loaves in the hand may be better than a full one in the bush.

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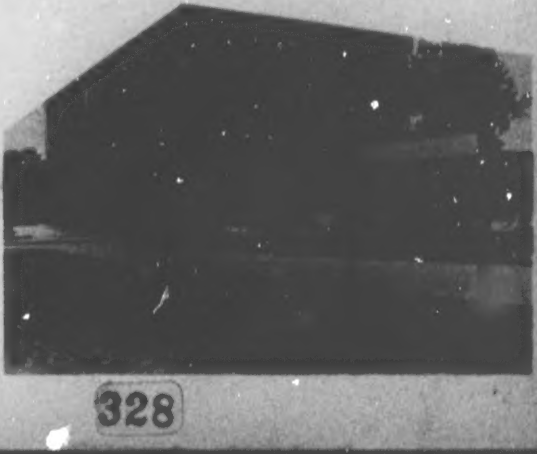

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